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Volume II

TRANSCRIPT OF RECORD

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SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1962

No. 83

UNITED STATES, APPELLANT,

vs.

THE PHILADELPHIA NATIONAL BANK, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

FILED MARCH 16, 1963
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IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWELFTH DAY

Philadelphia, Pa., June 21, 1961

Before Hon. Thomas J. Clary, J.

[fol. 2259] Mr. Reycraft: Your Honor, I would like to substitute for Government's Exhibit 149, which is an original document, a copy.

The Court: Motion granted.

Mr. Reycraft: I would also like at this time, Your Honor, to substitute for tables which were marked earlier by the Government, revised tables, the revisions, taking the form primarily of changes in the headings, the additions of footnotes, and I have handed a set to the reporter, and I ask that they be substituted for the exhibits which were originally marked.

Mr. Littleton: Will you state what the changes are.

Mr. Reycraft: Yes, I will.

Government's Exhibit 1, a change in the heading to indicate that the banks involved are those with head offices in the counties indicated.

(Document headed "Table I, Number of Banking Offices of Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania" was marked Exhibit G-1-S and substituted for document originally marked Exhibit G-1.)

Mr. Reycraft: This is the new G-1, revised G-1, and also if you will refer to the second page of revised G-1, Foot-

[fol. 2260] notes 2 and 3 give the names of the banks which were indicated by category in the original Exhibit 1.

Now, with reference to Exhibit G-2 also a change in the title to indicate that the banks involved are those with head offices in the counties indicated, and also an addition of three footnotes to indicate the banks involved, and the word "Total" is added at the bottom of the first page.

(Document headed "Table 2, Comparison of Total Deposits and Deposits of Individuals, Partnerships and Corporations of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Deposits of all Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960," was marked Exhibit G-2(S) and substituted for document originally marked G-2.)

Government's Exhibit No. 3 also contains a change in the heading to indicate that the material referred to commercial banks with head offices in Philadelphia. There is also the addition of the word "Total" at the bottom, and Notes 2, 3, and 4 are added to specify the banks included in the categories in the original document.

(Document headed "Table 3, Comparison of Total Net [fol. 2261] Loans of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with such Loans of all Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960," was marked Exhibit G-3(S) and substituted for document originally marked G-3.)

Government's Exhibit 4, also a change in the heading to indicate that the banks included are those with head offices in the four counties. The word "Total" is also added at the bottom, and Notes 2, 3, and 4 are added to specify the banks involved.

(Document headed "Comparison of Capital Funds of the Philadelphia National Bank and Girard Trust Corn Exchange Banks with such Capital of all Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware and Bucks Counties in Pennsylvania as of October 3, 1960,

Table 4" was marked Exhibit G-4(S) and substituted for document originally marked G-4.)

Government's Exhibit No. 6, also a change in the heading for the same reason. It shows these banks with head offices, and there is also a footnote which indicates the banks involved in the tabulation.

(Document headed "Table 6, Analysis of Loans of the Philadelphia National Bank and Girard Trust Corn Ex- [fol. 2262] change Bank and Comparison of Their Combined Loans with Total Loans of Commercial Banks with Head Offices in Philadelphia and with Total Loans of Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G-6(S) and substituted for document originally marked G-6.)

Government's Exhibit No. 7, the same change, the change to show the head offices, and to show the banks included.

(Document headed "Table 7, Analysis of Deposits of the Philadelphia National Bank and Girard Trust Corn Exchange Bank and Comparison of Their Combined Deposits with Total Deposits of Commercial Banks with Head Offices in Philadelphia and with Total Deposits of Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G-7(S) and substituted for document originally marked Exhibit G-7.)

Government's Exhibit 8, the same change in the heading to indicate that the banks involved are those with main offices in Philadelphia. The footnote on Government's Exhibit 8 in the original document is changed to [fol. 2263] eliminate the reference to Brown Brothers Harriman.

Mr. Price: May I ask, in connection with that, whether Brown Brothers Harriman is included in that?

Mr. Reycraft: No, it is not.

(Document headed "Table 8, Comparison of Total Assets of the Philadelphia National Bank and Girard Trust Corn Exchange Bank with Total Assets of all Commercial Banks with Main Offices in Philadelphia and with Total Assets of

all Commercial Banks with Main Offices in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania," was marked Exhibit G-8(S) and substituted for document originally marked G-8.)

With reference to Government's Exhibit 9, the change is to add breakdowns of the loans examined by categories of $1 to $49,999, $50,000 to $99,999, $100,000 to $249,999, and $250,000 to $499,999, $500,000 to $999,999, and a category of $1 million or more, which is in the original tabulation.

(Document headed "Table 9 (Revised), Analysis of Commercial and Industrial Loans of Philadelphia National Bank as of October 5, 1955, by Location of Borrower" was marked Exhibit G-9(S) and substituted for document originally marked G-9.)

[fol. 2264] Government's Exhibit 10, the same change is to break down the loans into the five categories which I have just described for Government's Exhibit 9.

(Document headed "Table 10 (Revised), Analysis of Commercial and Industrial Loans of Girard Trust Corn Exchange Bank as of October 5, 1955 by Location of Borrower" was marked Exhibit G-10(S) and substituted for document originally marked Exhibit G-10.)

Government's Exhibit No. 13 contains an additional footnote, indicating that the number of commercial banks includes the Philadelphia office of Brown Brothers Harriman and Company, a private bank, the head office of which is in New York, and does not include First Camden National Bank and Trust Company, which has one office in Philadelphia, nor National Bank of Chester County and Trust Company, which has one office in Delaware County, and that is by way of further explanation.

(Document headed "Table 13, Summary of Number of Commercial Banks and Banking Offices in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of December 31, 1947, June 30, 1956, and October 3, 1960," was marked Exhibit G-13(S) and substituted for document originally marked G-13.)

Government's Exhibit No. 14 contains additional data [fol. 2265] for the years 1957, 1958, and 1959, and one item under "Voluntary Liquidations," indicating that there were four for 1960, is added. There are also added Footnotes 2, 3, and 4 in explanation of the material contained in the bodies of the tables.

(Document headed "Table 14, Major Structural Changes Affecting the Number of Commercial Banks and Commercial Bank Offices in the United States, by Years, 1940, 1945 Through 1960" was marked Exhibit G-14(S) and substituted for document originally marked Exhibit G-14.)

Government's Exhibit 15 contains a change in the footnote to further explain the source of the data contained in the exhibit.

(Document headed "Table 15—Summary of Savings and Time Deposits of Girard Trust Corn Exchange Bank by Location of Depositors" was marked Exhibit G-15(S) and substituted for document originally marked G-15.)

Government's Exhibit 16 merely adds a total under each of the categories by date, so that, for example, in the category December 31, 1947, after the four banks indicated, total figures are included.

(Document headed "Table 16, Concentration of Assets of Insured Commercial Banks in Philadelphia, Delaware, Mont. and Bucks Counties, Pennsylvania in 1947, 1950, 1956 [fol. 2266] and 1960, and Effect of Proposed Merger Upon Such Concentration of Assets" was marked Exhibit G-16(S) and substituted for document originally marked Exhibit G-16.)

G-17 is a merely a change in title to indicate the information contained in the exhibit.

(Document headed "Table 17, Large Loans and Lines of Credit of Girard Trust Corn Exchange Bank Outstanding on September 21, 1960 by Location of Borrower" was marked Exhibit G-17(S) and substituted for document originally marked Exhibit G-17.)

And the same change for Table 18 in the title.

(Document headed "Table 18, Large Loans and Lines of Credit of Philadelphia National Bank Outstanding on September 21, 1960, by Location of Borrower" was marked Exhibit G-18(S) and substituted for document originally marked G-18.)

Government's Exhibit 20, the change is a further explanation in the footnote of the fact that the data contained in the exhibit is that supplied by the Girard on a random sample basis, and it states the basis of the sample, which is 1 out of 50.

Government's Exhibit No. 21 adds to the original exhibit a category, "Lines of Credit Under $50,000," also [fol. 2267] based on information supplied by the Philadelphia National Bank.

(Document headed "Table 21, Philadelphia National Bank—Loans and Lines of Credit Under $50,000" was marked Exhibit G-21(S) and substituted for document originally marked Exhibit G-21.)

On Government's Exhibit 25 there were typographical errors under "Loans for Purchasing or Carrying Securities" in the line beginning "Dollar Volume" under "Per Cent of Total."

(Document headed "Table 25, Philadelphia National Bank, all Loans $50M & Over, Except Commercial & Industrial Oustanding September 21, 1960," was marked Exhibit G-25(S) and substituted for document originally marked G-25.)

And with reference to Government's Exhibit No. 27, there were also errors under the totals by area, and the changed figures are indicated on the new exhibit.

(Document headed "Table 27, All Loans $50M and Over Except Commercial & Industrial Merging Banks' Combined Totals Outstanding September 21, 1960," was marked Exhibit G-27(S) and substituted for document originally marked G-27.)

In Table 28 there was one typographical error. After [fol. 2268] the heading "$100,000 to $500,000" under

"Total Four Counties," rather than 39.5 per cent as indicated on the original, it should be 59.5 per cent in the four-county area.

(Document headed "Table 28, Philadelphia National Bank, All Personal & Business Demand Deposit Accounts $10M & Over" was marked Exhibit G-28(S) and substituted for document originally marked G-28.)

Table 28A contains a more detailed title and deletes "Bank Demand Deposits" from the category of "Government Demand Deposits."

(Document headed "Table 28A, Time Deposits, $10,000 and Over, and Government Demand Deposits of Philadelphia National Bank in Philadelphia, Bucks, Delaware and Montgomery Counties, Pennsylvania, as of June 1960" was marked Exhibit G-28-A(S) and substituted for document originally marked G-28-A.)

Government's Exhibit No. 29 contains a change in the title to more fully explain the exhibit and adds a category under "Philadelphia National Bank" of "Demand Deposits Other Than Bank Demand Deposits" and "Domestic and Foreign Bank Demand Deposits," which also results in a change in the second page in the combined PNB and Girard totals, and the footnote on the second page is added [fol. 2269] to further explain the exhibit.

(Document headed "Table 29, Demand Deposit Accounts $10,000 & Over of Philadelphia National Bank, Girard and Merging Banks Combined" was marked Exhibit G-29(S) and substituted for document originally marked G-29.)

Government's Exhibit No. 30 contains a change in the title, and there are changes in the category under "Philadelphia National Bank, Number of Accounts," and there is added a combined total for both Girard and Philadelphia National Bank, and the footnote explains the information.

(Document headed "Table 30, Analysis of 100 Largest IPC Demand Deposit Accounts of Girard Trust Corn Exchange Bank and 100 Largest IPC Demand Deposit Accounts of Philadelphia National Bank by Location of Such Depositors" was marked Exhibit G-30(S) and substituted for document originally marked G-30.)

Government's Exhibit No. 31 contains a change in the number of time deposits under $10,000 in the four-county area, from 15 to 16.

(Document headed "Table 31, the Philadelphia National Bank, Number and Location of Savings Accounts and [fol. 2270] Time Deposits Under $10,000 as of March 31, 1961," was marked Exhibit G-31(S) and substituted for document originally marked Exhibit G-31.)

Government's Exhibit 45 contains a change to eliminate the earnings credits which had been included in the service charges erroneously.

(Document headed "Comparison of Proposed Service Charges of 'Resulting' Bank with Service Charges of Philadelphia National Bank and Girard Trust Corn Exchange Bank Immediately Prior to Their Application to Merge" was marked Exhibit G-45(S) and substituted for document originally marked Exhibit G-45.)

[fol. 2270a] Mr. Reycraft: Dr. Goodman.

OSCAR GOODMAN, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Dr. Goodman, what is your present position?

A. I am an associate professor of Finance at Northwestern University in the Graduate School of Business.

By Mr. Littleton:

Q. Doctor, would you mind speaking clearly? We can't hear you.

A. Yes, sir.

I am an associate professor of Finance at Northwestern University in the Graduate School of Business.

By Mr. Reycraft:

Q. Dr. Goodman, would you describe your educational background?

A. Yes. I have a bachelor's degree in Business Administration from Northwestern University.

I have a master's degree in Economics from the University of Wisconsin.

I have a Ph.D. in Economics from the University of [fol. 2271] Wisconsin.

I have an LL.B. from the University of Wisconsin.

Q. Dr. Goodman, what field was your graduate work in Economics that was done?

A. Yes. My graduate work was in Economics, with a concentration in finance. The subjects in essence involved economic theory, banking, finance, distribution, and allied fields.

Q. And your undergraduate work?

A. My undergraduate work was in the—the concentration was marketing.

Q. Would you describe your teaching experience?

A. Well, I taught at the University of Wisconsin in the School of Business from 1948 to 1952. I was associate professor of Finance and Insurance at Washington State University in Pullman, Washington, from 1953 to 1956. I was an associate professor of Finance at the University of California, in Berkeley, from 1956 to 1958; and I have been at Northwestern University in the Finance Department of the School of Business from 1958 until the present.

Q. Dr. Goodman, can you tell me some of the subjects you taught at the University of California?

A. At the University of California I taught Corporation Finance, Investments, Business Fluctuations and Fore- [fol. 2272] casting, Corporation Finance Case Problems, and Marketing Principles.

Q. And what did you teach at Washington State?

A. Corporation Finance, Investments, Principles of Insurance, Property and Casualty Insurance, and a survey, Introduction to Business.

Q. And what did you teach at Wisconsin?

A. Corporation Finance, Investments, Principles of Insurance, Sales Forecasting and Measurements, and Statistics.

Q. And at Northwestern?

A. Business Finance, Problems in Finance, Investment Portfolio Management, Investments, the Finance Seminar, and the Research Methods Seminar.

Q. Have you done any other teaching outside the universities?

A. Yes. I have taught at the Management Institute of the University of Wisconsin, and I have taught at the National Trust School sponsored by the American Bankers' Association, which convened at Northwestern University last summer and will be there again this year.

In the National Trust School my teaching assignment is Investments for Trust Officers.

Q. Doctor, will you describe your business experience?

A. Yes. My business experience was as manager of the Merchandise Control Research and Records Office of Alden's, mail order, in Chicago, where my major work was [fol. 2273] sales forecasting and preparation of budget, and analysis of sales performance.

Then I was at Spiegel's in Chicago as a senior market analyst. The main work was sales forecasting, market research, store-location studies.

This was in the period before I went to the Graduate School. It was from 1943 to 1946.

Subsequently I went to Wisconsin, majored in Economics and Finance and moved into Finance.

Q. Dr. Goodman, have you had any publications?

A. Yes.

Q. What are they?

A. The publications include a discussion of business education delivered at the Fire Association of the Pacific; "Forecasting Life Insurance Sales," in the Life Association News; "Sales Forecasting," published by the Bureau of Business Research and Service of the University of Wisconsin; "A Note on a Method of Forecasting Merchandise Sales," in the Journal of Marketing.

I have written for the Encyclopedia Britannica the following articles:

Capital Structure, Bond (in Finance), Futures, Hedging, Broker, Buyer, Check, Cash, Cash-on-Delivery.

Q. And have you written any book reviews?

[fol. 2274] A. Yes. I have written a book review of Trust

Banking in Washington by Howard Preston, which appeared in the Pacific Northwest Quarterly in 1954;

A book review of Retail Trade Area Analysis, by L. V. Fine, which appeared in the Journal of Marketing;

A book review of County Patterns in Life Insurance Sales, which appeared in the Journal of Insurance in 1958;

And a book review of Pension Funds and Economic Power, by Paul Harbrect, which appeared in the Journal of Insurance—it will appear in the next issue of the Journal of Insurance, this year, 1961.

Q. Now, in addition to the experience you have described, have you done any additional research in the field of banking?

A. Yes. I have done research in the banking area on the question of concentration and monopoly as it applies to the bank holding-company area.

In April, 1959, I started work on a paper tentatively entitled, "The Meaning of Competition as defined by the Bank Holding Company Act of 1956," and that paper is still in progress.

The purpose of the paper is to analyze each and every decision made by the Federal Reserve Board starting with the first one and to derive and distill from that the mean-[fol. 2275] ing of competition as interpreted by the Federal Reserve Board.

It also includes the analysis of geographic area encompassed by the Federal Reserve Board and the line of commerce as the Federal Reserve Board interpreted it under the Bank Holding Company Act.

Q. Do your classes in Finance include problems involving bank operations?

A. Yes. A substantial part of the work that I do in the finance area involves banks and banking as a source of business funds, and also the question of bank management and the impact of the composition of a bank's assets in the sense of the significance of it to the investor, as well as to the manager of a bank.

Q. Dr. Goodman, are you a member of any professional societies?

A. Yes. I am a member of Beta Gamma Sigma, which is an honorary in Commerce; Phi Delta Kappa, which is an honorary in Education;

Then I am a member of the American Economic Association, the American Finance Association, the Financial Analysts Society, the American Association of University Teachers of Insurance, the American Association of University Professors, and the Illinois Bar Association.

[fol. 2276] Q. Dr. Goodman, have you made any study in connection with this case?

A. Yes.

Q. When did you begin that study?

A. I began the study at the early part of March and have worked on it intermittently since March and constantly for the past month.

Q. What information have you examined in preparation for your study?

A. Well, I have examined the reports by the regulatory agencies who examined the impact of the merger.

I have examined the application.

I have examined the statistics collected by the Justice Department from the banks.

I have examined the material from the banks which the Justice Department has collected.

I have examined the depositions of the bank officers taken.

I have examined the full range of economic literature dealing with the problem of concentration, monopoly, competition, and simplifications in banking and in credit.

Q. On the basis of your study have you reached any conclusions on the effect of the proposed merger of the Philadelphia National Bank and Girard Trust Corn Exchange on [fol. 2277] competition in commercial banking in the Philadelphia area?

Mr. Littleton: Objected to until we have an opportunity to cross-examine this witness.

Mr. Reycraft: All right. Cross-examine.

By Mr. Littleton:

Q. Doctor, you never taught banking at all, did you?

A. I think that a fair answer to that would have to be yes, in the sense that banking is an integral aspect of courses in finance.

If you mean, have I taught the narrow course in bank

management at the Graduate School of Business, our school, for example, is thinking of dropping its narrow course in bank management.

Q. Did you ever teach bank management?

A. No. I have not.

Q. Did you ever teach anything about commercial banking?

A. Yes. I have.

Q. Courses in commercial banking?

A. I have not taught a course called "Commercial Banking."

I have taught commercial banking as it applies to sources of funds for business.

Q. Your field has been corporate finance, insurance, and marketing, hasn't it?

A. I think that probably one would have to include in- [fol. 2278] vestments.

Q. And investments?

A. Yes, sir.

Q. That has been your field. Anything about banking is just collateral to that that you might have taught?

A. Since banking is one of the— is the most important financial institution, I can't—I would not say that it is collateral. It is an integral part of finance.

Q. Did you ever write anything on the subject of bank management?

A. The only thing that I have written was the review of trust banking.

Q. Of trust banking?

A. Trust banking.

Q. Did you ever write anything on commercial banking?

A. Other than the draft of the paper that I now have on the Bank Holding Company Act, which I started in 1959.

Q. And where is that paper, sir?

A. The paper is in Chicago.

Q. Have you completed it?

A. No. I have analyzed 20 cases, I believe. After the analysis of the 20 cases I decided to wait because I felt——

Q. Excuse me?

A. Because I thought the earlier cases may not fairly rep-

[fol. 2279] resent the Federal Reserve Board's feelings, in that they had not had any experience with the Act. I felt that perhaps the later cases might be completely different.

Q. This is this project you are working on in connection with the Bank Holding Company Act; is that correct?

A. Yes. That was the paper which I had said was "The Meaning of Competition as Interpreted by the Bank Holding Company Act."

[fol. 2280] Q. And there is nothing extant that comes from you as yet in that field?

A. No.

Q. There is nothing I could read, for instance?

A. The articles in the Encyclopedia Brittanica have not been published. Those deal with checks, cash—those have banking implications. You could not read them for they have not yet been published.

Q. Let me ask you about this project which you have at the present time in connection with the Bank Holding Company Act.

I am asking you, is there anything that you have written there that would be available to us to read?

A. Nothing has been published.

Q. And you don't have your manuscript with you?

A. I do not have it with me.

Q. Is there a manuscript?

A. Yes.

Q. Completed?

A. The first 20 cases have been analyzed, yes, and conclusions drawn from them.

Q. Have you ever been employed by a bank, Doctor?

A. No, sir.

[fol. 2281] Q. And when you talked about your bringing in banking as part of these courses that you teach or that you study, your emphasis has been on securing credits from commercial banks; it has been from the point of view of the borrower, has it not?

A. It has been from the point of view of the borrower in business finance.

In investments, it has been from the point of view of the bank, inasmuch as the excellence of management of a bank's funds reflects itself in the profitability of the bank.

Q. Now, these things that you have examined in connection with this particular merger that we have here under consideration, have you told us everything that you have studied in connection with this?

A. I am not sure. I have tried to indicate those that came to mind immediately.

Q. For instance, you said you read the depositions of the bank officers.

A. Yes.

Q. Name us the officers who gave us their depositions.

A. Yes. I read the deposition of the bank officer, I believe it was the deposition of Mr. Brown.

Q. And what other deposition did you read? I under- [fol. 2282] stood you to say the bank officers who gave their depositions.

A. I believe I only read one deposition, the deposition of Mr. Brown of the Girard Bank.

Q. Then did I misunderstand you when I thought you said you read the depositions of bank officers?

A. I have read one deposition of a bank officer, Mr. Brown of the Girard Bank.

Q. And you have told us everything else that you have examined in connection with this?

A. I don't believe I could say that. I told you everything that came to mind when you asked me that question.

I have a good deal of material here and I have examined a very substantial number of documents and substantial number of sources, and as we go along it may very well be that a number of other sources and other kinds of material will appear in the discussion.

Q. Have you ever made a study of banking concentration in any other area than the Philadelphia area?

A. Yes, I have.

Q. Tell us about that. Where was that?

A. It is in Lexington, Kentucky. I was asked to analyze the bank area in Lexington, Kentucky, and Philadelphia.

Q. That, of course, is in connection with the action which [fol. 2283] the Department of Justice has brought against the Lexington banks which were seeking to merge?

A. Yes, sir.

Q. That is in connection with the action which the De-

partment of Justice has brought against the two banks there which have merged?

A. Yes.

Q. In any other area have you ever made any studies of banking concentration?

A. The other studies of banking concentration were all in relationship to the bank holding company decisions. Other than that, no.

Q. And as late as May 24, 1961, you hadn't formed any opinion about this particular merger, had you?

A. No. I was still in the process of examining documents. All of the exhibits had not been prepared. The figures were being ground out in Washington.

Q. And some of them weren't prepared until just this morning, were they?

A. The figures—several exhibits, I believe, were prepared yesterday or the day before, which were produced.

Q. And you have studied them?

A. Yes, I have. I have tried to study every document and every bit of material which is available and bears on [fol. 2284] this case.

Q. When did you come to Philadelphia in connection with this case?

A. I came to Philadelphia in connection with this case the Friday before the case started.

Q. And you have been here ever since?

A. No. I was here Friday, Saturday, Sunday, and Monday. I returned to Chicago, because I teach.

I returned here on Friday night and I have been here—it seems to be an age. Actually I have been here a week and a half.

Q. You have been here since Friday night a week ago?

A. Friday night a week ago, yes.

Q. In other words, you were working all last week while we were having the documents read into the record here in court?

A. Oh, yes. Yes, I have felt that I would use whatever time I had available to completely familiarize myself with all of the material that I possibly could get.

Q. And before this case, had you ever been to Philadelphia?

A. Yes, I have been in Philadelphia, merely as a casual visitor.

Q. Not in connection with any banking matter?

[fol. 2285] A. No. The American Economic Association has had its annual meeting here and I was here for that.

I have been here to meet with friends of mine who are associated with the Insurance—with the American Association of Chartered Life Underwriters and the casualty and property underwriters; and I have been here to visit friends of mine who teach in the area.

Q. Now, in addition to the things that you have taught, and the things that you have written, you said that you have read all of the pertinent literature on this subject that you could put your hands on.

Will you tell me what literature you have read, by name and author?

A. Yes, I can. I can tell you that literature which I thought——

What I did was prepare a bibliography, a selected bibliography of material that I had looked at. This is not all the material that I had looked at, since I could not remember it, but I do have a selected bibliography which I will be glad to read if you so desire.

Q. May I see it?

A. It starts here on Page 4, 5, 6, 7, 8, and 9.

Q. May I take it back to look at it here?

A. If you are going to take the whole thing, you had [fol. 2286] better take this too.

Mr. Reycraft: Will you mark as Government's Exhibit 176 the document which Dr. Goodman handed to Mr. Littleton, which contain a bibliography as described?

(Nine-page document (with three attached tables), entitled "Finance Faculty Seminar for Advanced Graduate Students in Finance, Finance Seminar, June 9, 1961, Professor Oscar R. Goodman, Effects of Bank Mergers," was marked Exhibit G-176 for identification.)

By Mr. Littleton:

Q. Doctor, when you say you looked at these, do you mean that you studied these?

A. I have examined each of the bibliography that I have

listed here; some in great detail, others merely to see what was in them, to see if I could find anything of use.

Some of them I have taken only a little bit from; some I have taken a lot from. In other words, these are the sources that I have used, all in varying degrees.

I have used them as one would use them in research.

By Mr. Price:

Q. Dr. Goodman, you said that you had started to study [fol. 2287] this question intermittently sometime in March.

Was that when you were first retained by the Government to give an opinion in this case?

A. I was asked by the Government on March 2nd, as a matter of fact, to examine the material in order to come to an opinion, to start preparing to arrive at an opinion.

Q. And that was to testify, wasn't it?

A. Yes.

Q. For the purpose of testifying?

A. It was explained that I would be asked to be a witness in the case.

Q. And was that about the same time that you were asked to examine the Lexington situation too?

A. Yes.

Q. When did you reach an opinion on the Lexington case?

A. I have not reached an opinion on the Lexington case.

Q. When did you reach an opinion in the Philadelphia case?

A. I would say that I reached a tentative opinion after examining the figures of the reports of the regulatory agencies, based upon those particular figures.

Q. What date was that?

A. I believe I had those figures—I must have had those [fol. 2288] figures sometime late in March.

Q. On May 24, when your depositions were taken in Chicago, you stated that you had not yet reached an opinion, did you not?

A. Yes, sir. I had not reached my opini——

Q. Which is the correct statement then?

A. I can only say that I felt that I should not reach my final opinion until I had examined all of the information that was to be made available to me.

On May 24 I did not have the information on the 1960

condition of the banks, which was being prepared in Washington.

Q. When you were asked whether you had reached an opinion when you were testifying in Chicago, you made no such qualification as you have added today, did you?

A. I don't believe the question was asked. The question was asked whether I had reached an opinion. I would have to say that on May 24 I did not have an opinion.

Q. But there was nothing about the qualifications that you gave today, was there? You just said categorically that you had reached no opinion, did you not?

A. On May 24 I had not reached my opinion in this case.

[fol. 2289] Q. And your answer to the question simply was, "No," wasn't it?

A. My answer to the question reflected the fact that I had not reached an opinion and was, "No."

Q. And there was no qualification such as you have given today?

A. (There was no response.)

Q. Was there?

A. I would answer the same way to the same question if it were asked me again on May 24.

On May 24 I had not reached my opinion in this case.

Q. The 20 cases which you say you have considered in your study of banking concentration all relate to the bank holding companies, do they not?

A. Yes, sir.

Q. And in what parts of the country?

A. They range in varying parts of the country where bank holding companies operate.

Q. Tell me where these cases are that you referred to.

A. Well, sir, I don't have a list in front of me. I am trying to think about them.

The cases would be where bank holding companies operate and that would be Ohio, California—there were cases [fol. 2290] in California, there were cases in Ohio, there were cases in Wisconsin, there were cases in Minnesota, there were cases in Utah, there were cases in New York.

Q. How many in New York?

A. I am trying to think about the New York situation. I am not sure about New York. I don't have the list of

cases—I have a list of cases somewhere in the evidence and I can give you the list of cases which were involved in the Bank Holding Company Act, if you like, which will give you each and every one of them, if you want me to find them.

Q. Not this minute, but if you will be good enough to do that during the recess, give me the list of cases which you have described as these 20 cases that you studied.

A. Yes.

[fol. 2291] Q. None in Pennsylvania?

A. No, none in Pennsylvania.

Q. And in the course of your studies did you make any direct inquiries in Pennsylvania or in Philadelphia?

A. No. In the course of that——

Q. Did you——

A. In the course of that study, I don't believe there was any relevancy in Pennsylvania.

Q. I couldn't hear that answer, Doctor.

A. I don't think that study dealt with Pennsylvania.

Q. No.

Now, in the course of your researches for the purposes of testifying in this case, did you make any examination of other than these statistics which the Government gave you? Did you make any examination of the situation in Philadelphia?

A. Well, yes. I tried to collect as much information as I could on Philadelphia and the Third Federal Reserve District; and, therefore, tried to collect information published by the Federal Reserve Bank of Philadelphia, feeling that their studies would relate to this particular area.

I also wrote to the Department of Banking in Harrisburg and received from them two studies, I believe, that they had had on hand. One was a study by a young man [fol. 2292] named John Sienkiewicz, which was a paper on branch banking and mergers in Pennsylvania written in 1955, a study of branch banking and the merger movement in Pennsylvania up to 1955.

I also came across a reference to a so-called Keith report, which was investigated in the course of investigating branch banking in Chicago, and I then wrote and got a copy of the Keith report because it dealt with banking

and the merger movement in Philadelphia, particularly in this area.

In the course of my analysis whenever I came across references to Philadelphia and the Third Federal Reserve District I paid special attention to those statistics and that information and that evaluation.

I would come across some references of this type in reports submitted in other studies, for example, bank-concentration studies submitted to the Congress in the course of the bank-merger notification—the bank-merger hearings.

Philadelphia appears in many tables which are included in studies prepared by the Small Business Administration, as well as tables prepared and published in the course of the hearings before the Congress. In those instances I tried to pay very particular attention to Philadelphia.

[fol. 2293] In addition, in the investment services I tried to take a look at Philadelphia banks to see whether they were successful, et cetera.

I also collected from Polk's the information that is in the appendix of that study you have there, dealing with all the banks in the four counties in which Philadelphia banks can establish offices; and from Polk's I examined the individual companies, the individual banks, and the area.

Q. What was the other study that you referred to as having received from Harrisburg in addition to Sienkiewicz?

A. It was by John Sienkiewicz.

Q. You described Sienkiewicz, but there was another one.

A. It was a study called "Branch Banking in Pennsylvania," a little pamphlet. I have it here somewhere.

Q. Do you remember the author?

A. I received—I believe that was the Department of Banking of the State of Pennsylvania. I don't remember it right now. Perhaps it is in the bibliography.

Q. Then your research consisted entirely in a review of statistical data and material which you got from various sources; is that correct?

A. Yes. All of the material which I looked at was collected by myself or at my direction, and typically was either collected as primary data from the individual who [fol. 2294] supplied it to me, or was secondary data.

Q. Did you talk to anybody? Did you get any oral ex-

pressions of opinion from anybody, or only the written opinions which you gleaned from the documents which you read?

A. The problem of concentration and competition in banking is interesting enough that I discussed the question of the effects of bank merger at a doctoral seminar. We have our doctoral candidates in finance, who are asked to come to a seminar, which is typically led by one of the members of the department on a subject of interest in the area of finance, at which all the members of the Finance Department come and we discuss a problem in finance.

And I did discuss with all the members of the department and our doctoral candidates, all of whom have had very, very substantial educational backgrounds in economic theory and finance, the question of the effects of bank mergers in general; and I used the data that I collected from Polk's, which is in that outline, as an example of a particular area, feeling that this would be pertinent.

Q. Then you didn't talk with any bankers or businessmen in Philadelphia about this subject, did you?

A. I collected no information based upon personal interviews in Philadelphia.

Q. And you conducted no personal inquiries yourself in [fol. 2295] Philadelphia, did you?

A. Well, I would say that I conducted a very extensive personal inquiry of the situation in Philadelphia.

Q. My question, Doctor, as you have gathered, was directed to your personal conversations with people in Philadelphia about this matter.

A. As a matter of fact, I did discuss some things in Philadelphia. I was curious about several of your——

Q. With whom?

A. I am about to tell you.

I was curious about several of your banks here. One was the Pennsylvania Safe Deposit & Warehousing Company, and one was the Finance Company of Pennsylvania, which, it was obvious, were not thought of as competitors by the banks because they had not listed them in the application.

The statistics on the banks, although they were called banks, were such as to excite my curiosity because, although they carried the name of bank, they just simply

didn't have a balance sheet that had any resemblance to a banks' balance sheet.

Therefore, I went to visit these two particular institutions and talked to individuals there, just to satisfy my curiosity. I had never seen two such institutions, so I did go to these two places.

[fol. 2296] In addition——

Q. What information did you get from them?

A. I got information which satisfied me that they simply were not—although they had bank charters, they were not what I would consider to be commercial banks. They were not—they were performing substantially—the most important part of their function, so far as I was concerned, was not commercial banking.

Q. And that is all the information you were looking for from them and that's all you got, was it?

A. That is all that I was looking for from those two institutions.

Then there was the question of Brown Brothers & Harriman, which was a disturbing fact, and I called up a Mr. Hess, I believe it was, at Brown Brothers & Harriman to see if I could get some information from him as to his operations in Philadelphia. He told me that he could not give me those individual figures.

Then there was the Camden branch. I went down to the Camden branch, walked in the Camden branch, and called up the president of the First Camden National Bank to see if he had data which he would make available to me on the operations of his first Camden branch. He said no.

I believe that—let's see. For the moment, that's all I can [fol. 2297] think about.

Q. Did you talk with anybody else, either bankers or businessmen, outside of Philadelphia who had banking connections or did banking business in Philadelphia?

A. No.

Mr. Price: That's all I have.

Mr. Littleton: May I ask just one or two questions on this G-176?

The Witness: What is this? My outline?

By Mr. Littleton:

Q. The bibliography which you gave me or which you handed to me, Doctor, of the writings or texts that you looked at in connection with this is attached to what appears to be a program of "Finance Faculty of Northwestern University School of Business" taught by you or conducted by you.

I assume in your teaching you have always been objective?

A. I try to be.

Q. Yes.

This program is dated June 9, 1961, and is headed "The Effect of Bank Mergers," and I notice that part of the program is, in paragraph 4, The Philadelphia National Bank and the Girard Corn Exchange Bank (a state-chartered institution) have announced their intention to merge [fol. 2298] and their stockholders have approved the merger.

Then you are going to discuss and receive from the point of view of the economists interested in private finance what would be the effect of this merger on competition in the relevant market.

A. The date, incidentally, Mr. Littleton, is really May 24th. I felt that I should include the most complete——

The date that you have is June 9th, but it really—that is an error on the part of my secretary.

This is a reproduction. I thought I might want some copies here, so on June 9th I asked her to reproduce the original outline and to include the complete bibliography, in other words, pages 7, 8, and 9—pages 7, 8, and 9 were added on June 9th, you see.

Q. Yes.

A. So she changed the original date. The date should be May 24th.

Q. Well, May 24th——

A. The date of this discussion.

Q. May 24th is the date when your deposition was taken in Chicago.

A. That afternoon; that is correct.

Q. And at that time you said you had formed no opinion as to this Philadelphia National-Girard merger?

[fol. 2299] A. I had not.

Q. Had you, on June 9th, the date of G-176 that I hold in my hand?

A. June 9th? That was Friday.

I would say that my opinion by—by June 9th I had been—this was the week after I had returned from Philadelphia, at which time I had had all the tables, all of the tables which the Government had been preparing, based upon the financial data.

At that time I had, for three days, been examining all of the documents collected by the banks. I would say that on June 9th my opinion was formed.

By the Court:

Q. Is that the night you came back to Philadelphia?

A. Yes.

Mr. Littleton: If Your Honor please, I object to this witness as not being qualified to express the opinion he has been asked for.

Mr. Reycraft: Your Honor, I submit the witness has made every study that a witness could make, that an economist could make, during the time available and that he is qualified to testify as to what his study has shown.

The Court: I will not hold that he is an expert on banking or bank mergers. I refuse to so qualify him.

[fol. 2300] I will, however, qualify him as an economist who has taught finance, and he may be allowed to express his opinion in that category, as one who has made a special study of this case; but I do not qualify him as an expert in either banking, the operation of banks, or bank management.

Do you get the distinction?

Mr. Reycraft: Yes, sir.

The Court: All right.

We will take a ten-minute recess.

(A recess was had.)

The Court: Proceed, Mr. Reycraft.

By Mr. Reycraft:

Q. Dr. Goodman, in your teaching of corporate finance, did you have an opportunity to consider the subject of mergers generally?

A. Mergers is a very important part of corporation finance and I consider mergers as a substantial part of my course in corporation finance and in business finance and any other finance courses that I teach.

Q. Dr. Goodman, in your teaching in the business-finance field have you had an opportunity to examine the structure of financial institutions from which businesses obtain financing?

A. Yes.

[fol. 2301] Q. Will you explain in what way?

A. I have examined the sources and the uses of the funds of financial institutions and how they distribute these funds to various individuals and businesses who borrow funds.

In other words, where they have got their funds from and what they do with the funds that they have received.

I have examined the characteristics, the nature of the management limitations that are upon the managers of financial institutions, which are laid onto them by the very nature of the contract under which they have received the funds and the nature of what they are allowed to do with their funds.

Q. In so doing you have examined in your teaching and in your studies into the differences in the structures of these institutions?

A. Yes. I have.

Q. Now, have you made a study in connection with this case of the financing problems of businesses?

A. Yes. I have.

Q. And in making this study, what financial institutions did you examine?

A. I examined commercial banks, savings and loan institutions, mutual banks, sales-finance companies, finance companies, general finance companies, mutual-savings banks, and other institutional investors, life-insurance com-

[fol. 2302] panies, et cetera.

Q. Did you reach any conclusion with reference to the sources of funds for business financing?

A. Yes.

Q. What were they?

A. My conclusion is that for small and intermediate-sized business, the great majority of all of their external funds is derived from commercial banks.

For large businesses, large corporations particularly, they have a substantial number of alternatives in the capital market.

Q. Now, what was the basis for this conclusion?

A. The basis for this conclusion is an examination of the studies made by the Securities & Exchange Commission, who gets the proceeds from the sale of bonds and stock, and other capital which is available to business.

It is based upon an examination of the various statistical reports and analyses made by economic agencies investigating sources and uses of funds by businesses and by financial institutions.

Q. From the standpoint of a business which can use the financial services of a financial institution, did you consider whether there are differences between commercial banks and other institutions?

[fol. 2303] A. Yes.

Q. And what are they?

A. Well, it is my conclusion that as far as the smaller and intermediate-sized business is concerned it effectively has very, very little opportunity in deriving external funds from such institutional investors as insurance companies, pension funds, and other such financial intermediaries; and it has very little opportunity of deriving short-term working capital from any of the savings institutions, like savings and loans or mutual-savings banks.

In other words, the primary and practically only regular source for reoccurring financing purposes for small and intermediate-sized business, short-term, self-liquidating type of loans, as well as intermediate financing, for all practical purposes this is the commercial banking system.

Mr. Littleton: If Your Honor please, may I inquire at this point of the witness, because he has used the term several times, if he will define small and intermediate businesses?

The Witness: Yes. The definition of a small business varies. It usually is defined in terms of number of em-

ployees or in terms of size, and even then the definitions vary by industry.

[fol. 2304] I think that we are beginning to accept as definitions those definitions promulgated by the Small Business Administration.

By Mr. Littleton:

Q. How are you using them, Doctor?

A. I am using them in the same way.

I would consider that a small business would be a business whose asset size is probably—again it depends on the industry, but I have in mind an asset size of less than $250,000 and employees of less than 500 employees; but the definitions vary considerably, as we say, by industry.

In some industries, some construction industries, the definition of small business might go up as high as $1,000,000 or more.

The definitions that I use are those which are promulgated by the Small Business Administration, which I have here, in other words, for each individual industry.

By Mr. Reycraft:

Q. Would you indicate those for the record, Doctor?

A. Yes. These are the SBA rules and regulations.

The definition of a small business—a small-business concern for the purposes of Government procurement is if its number of employees does not exceed 500 persons; for construction contracts, if its annual receipts are less than [fol. 2305] $5,000,000 for the preceding three fiscal years; for food canning and preserving, less than, again, 500 employees.

We have a number of categories which are listed here in terms of employee standards. I think that—well, let me get the apparel. For example, in the apparel industry it is generally less than 250 employees. In the chemical and allied products, generally less than 250 employees, although in some categories it is 500 and in other categories it is less than a thousand.

Small, then, is a matter of relativity. It varies by individual industry. In general, one would say that the retail-trade industry is characterized by small industry in gen-

eral, as primarily small. Probably 90 per cent of all businesses in retailing would be characterized as small; most in wholesaling would be characterized as small.

[fol. 2306] By Mr. Littleton:

Q. What was that from which you were reading?

A. I was reading from SBA rules and regulations.

Mr. Littleton: Is that marked?

Mr. Reycraft: I will have it marked.

The Witness: In addition, the Federal Reserve Board has defined small business—small, medium, and large—for purposes of carrying on a study in 1955 and in 1957, and they have promulgated some standards of what is small and what is large.

Now, to be sure, I should get the information, the standards, that they have used in their study. I will get the 1955 and 1957 studies, and we can examine specifically what the Federal Reserve Board used.

Mr. Reycraft: Will you mark as Government's Exhibit 177 Part 21 of the Small Business Administration rules and regulations, Revision 2, Section 121.3.

(Small Business Administration Rules and Regulations, Revision 2, Section 121.3, was marked Exhibit G-177 for identification.)

The Witness: The Federal Reserve Bank of Philadelphia, in its commentary on the 1957 Federal Reserve study of small business financing, used the definitions of less than $50,000 for retail trade, less than $250,000 for wholesale, [fol. 2307] commodity, real estate; than a million dollars for manufacturers of food, liquor, tobacco, textile, apparel, and health; less than $5 million for sales finance companies, and less than $5 million for some very substantial manufacturing companies.

By Mr. Littleton:

Q. Do I understand that they are the definitions you are using?

A. Well, I feel that I would use the definitions that are becoming accepted by most researchers in the field.

Q. You are testifying, and I am asking you if you are using those terms.

A. I am using the same definitions.

Q. As what? The Federal Reserve or the Small Business Administration?

A. Well, I think I might say that I am using these as a general guide, the two combined. I don't have the problem of defining any particular business as small or large. My thinking about the problem revolves about the question of, in general, what industries do small business predominate in, as defined by those who have studied and counted the number of companies in each individual field. So I don't have to define, I have not had the problem of defining, any one business by any size standard, so I have [fol. 2308] not followed any very specific, I have not followed any standards of that type. I generally in my thinking have used the standards used by the Small Business Administration and by the Federal Reserve Board, because, in any group of individuals who talk about small business, the question on the high side, at what point do you cut off a small from a very large business, is somewhat of an unsettled problem.

Q. You used a third term. You said intermediate businesses.

A. Yes. In terms of asset size for small, intermediate, and large sized businesses, when one uses corporations, one category which I often follow is the categories which are listed in the "Quarterly Report on Manufacturers" published by the SEC, and in their size categories when they examine financial statements of manufacturing corporations, they, for example, have three categories:

Under $1 million in terms of total assets.
$1 million to $5 million.
$5 million to $10 million.
Then they have additional larger sizes:
$10 million to $25 million.
$25 million to $50 million.
[fol. 2309] $50 million to $100 million.
$100 million to $150 million.
$250 million to $1000 million.
$1000 million and over.

So In manufacturing, in the opinion of the Securities and Exchange Commission, there are various gradations of

industry from less than $1 million all the way up to $1000 million and over.

Q. And you have been testifying here about intermediate businesses. What do you mean?

A. Well, when I deal with manufacturing corporations of the kind that would be reported by the SEC in their "Quarterly Report on Manufacturing Corporations" I would tend to use as small companies those companies that are less than $10 million, the range running from very small, under one, to relatively small, to small. I would use as intermediate some range from perhaps $10 million to $50 million.

Q. So that when you used "intermediate" a few moments ago in answer to a question Mr. Reycraft asked you, you were talking about $10 million to $50 million by corporation, were you?

A. Only in manufacturing corporations of the type that are reported by the SEC. In trade and wholesaling the [fol. 2310] sizes would be considerably different, and in trade and in wholesaling, in retail trade, a very small company would be one less than $50,000 in total assets, and gradations of size probably up to—well, I would probably say less than $250,000 in total assets would be small, but less than $50,000 would be very small, put it that way.

Q. What would be intermediate?

A. I think that an intermediate size retailing concern probably would be anywhere from $250,000 up to, in total assets, up to $5 million would be an intermediate size. I don't think you can have just three categories. There would be a group of middle retailing companies, and then there would be the very, very large ones, very large being a company like Sears Roebuck or a company like the A&P, whose assets size is in the hundreds of millions.

Q. You understand you used the term. All I want to know is what you meant by the term.

Mr. Reycraft: I ask that Mr. Littleton be instructed to confine his questions totally to qualifications and save this for cross-examination.

The Court: I think I have a pretty good idea what the doctor means in the various realms, so go ahead.

By Mr. Reycraft:

Q. Dr. Goodman, from the standpoint of the business [fol. 2311] borrower, what are the other services available from commercial banks?

A. Probably the function associated with the safekeeping and the drawing of cash and its monetary equivalents, in other words, demand deposits, the checking facilities to facilitate the transfer and the payment of funds for the small business, the providing of small business with cash —on the giving side and the taking side.—providing of a businessman with an opportunity to borrow, to finance his working capital, to finance his inventory, his self-liquidating needs, primarily to finance his needs of the type that have a maturity of less than one year, of the type that will finance his current operations, financing inventory, which is then sold, with the proceeds he can then pay off his loans.

In addition, the bank provides for the small and intermediate size businessman term loans, probably substantially—in recent years a more substantial part of the funds can be secured for longer than one-year periods—used for such things as financing the installation of equipment or fixtures and used for such things as his so-called, well, semi-permanent working capital needs for financing his basic inventory other than the type that is entirely liquidated.

[fol. 2312] Q. Are there services available to business from commercial banks which are also available from other financial institutions?

A. Yes, to a limited extent from the mortgage window. In other words, a small business could, if it owned its store, it would be able to raise funds by securing a mortgage from a bank or from a savings institution or from an insurance company. He may secure mortgage money for real estate purposes from other financial institutions, and in some industries factors are used for the financing of receivables, but for most small and intermediate size business, factors are not a source of funds to any substantial degree.

Q. Why not?

A. Well, the costs are higher than the costs for a commercial bank. The amount of the financing would have to be relatively large to make it worth the factor's time

to go into a particular company, so factors tend to specialize among textile companies to a substantial degree, larger companies, manufacturing companies to a substantial degree, and they are relatively unimportant in retailing, in most retailing and wholesaling fields.

Q. You referred to several institutions which perform some services required by business. Can any of these [fol. 2313] institutions perform all the services required from financial institutions?

A. No.

Q. Which ones can they not perform?

A. No other institution except the commercial bank can create demand deposits, for example, can loan money which it does not have in its possession, can create a loan by creating a demand deposit. Therefore, the facilities of the banks for lending to business are much greater and much broader than the facilities of any other institution. In addition, no other institution can loan money so cheaply to smaller businesses than a bank, because the costs of the contact from a commercial bank's point of view are spread over its full range of commercial banking activities. In other words, the business deposits its funds with the bank. The business draws its funds on the bank. The business is constantly in contact with the bank and the bank in contact with the business. Therefore, the expenses of making a particular loan, of servicing a loan of a commercial nature for a bank are unique as compared to any other kind of financial institution, and therefore the only kind of loan, let us say, a life insurance company which would want to loan commercial loans could make would [fol. 2314] be relatively large, because of the cost of making the loan, of servicing the loan, from the company's, from the lender's, point of view. Therefore, no other institution, I do not think, can make the kinds of loans which are the primary commercial needs of a small and intermediate sized business, as compared to that made by a commercial bank.

Q. Have you given any consideration to small loan companies as a source of financing to business?

A. Yes. The statistics indicate—I have some figures prepared by the Federal Reserve Bank of Philadelphia which clearly indicate that the amount of money made avail-

able by small loan companies to business as compared to that made available by a bank is relatively insignificant. Again the same problem. If a business were to go to a small loan company, they would have to pay a very substantial rate—I will state somewhere between 24 and 36 per cent—and the amount that the small loan company can loan to the business is typically restricted by law. I believe the Pennsylvania figure is around $600, with a gradation up to higher amounts, and this is quite typical of practically every other state. So the small business that went to a small loan company would be one that is in desperation, that has been turned down by its bank.

[fol. 2315] Q. What are the principal sources of capital to personal loan companies, small loan companies?

A. The principal sources of capital which the small loan company uses is capital supplied by the owners of the company and loans from commercial banks. In other words, the commercial bank is the supplier, too, of a substantial part of the funds which small loan companies use.

Q. Do these facts have any bearing upon the competition between commercial banks and small loan companies to furnish services to businessmen?

A. I think it quite clear that the costs of the small loan company and the amount of money that they can advance to a business, the cost is so high, the amount of money is so limited, that businessmen who go to small loan companies would be those who had been turned down by banks and would be so desperate that they would want to pay these very, very substantial prices, which in most cases are uneconomic, and the amount that they could get would be insignificant, because the amount that the small loan company can make available is so limited.

Q. Have you examined any documents with reference to the relationships between small loan companies and either of the two banks involved in this case?

A. Well, I have examined, I believe, in this particular [fol. 2316] market, Mr. Brown in his deposition pointed out that the small loan companies were not significant competition; and in addition some of the documents indicate—there was a document that had reference to the Ritter

Finance Company, a local company here, and again an opinion by a bank officer that the competition of the loan company is simply insignificant. They are in a completely different market, as far as the bank is concerned, that they loan to a completely different kind of customer, they are not competition.

Q. Have you given any consideration to the range of choice of business for financial services with respect to the geographic area?

A. Yes, I have. I have given a good deal of thought to that particular problem.

Q. And what data did you examine in connection with this study?

A. I examined the reports on the geographic area prepared by the regulatory agency. I examined the area within which the banks could legally establish branches. I examined the opinion of writers on the subject of banking and bank concentration and markets on what the geographic area for a bank is. I examined the opinion of Federal Reserve bank writers in individual areas, writing [fol. 2317] on the geographic area within which the banks in their district compete. I examined the geographic area established by students of the problem of banking in Philadelphia and in Pennsylvania, and then I examined the source of the business of the banks as shown in data collected from their own records, first in 1955, in response to a request by the Federal Reserve Board, who wished to study the nature of commercial and industrial lending by banks in individual districts and for the country as a whole, and in this particular study the geographic area of the commercial and industrial loans of the banks were specified; and then I examined data collected from the banks, indicating the geographic area from which their business came in 1960.

Q. On the basis of this examination what were your conclusions?

A. My conclusion is that the relevant geographic area for an examination of the effects, if any, of concentration in this particular area is the four-county area of Philadelphia County, Bucks County, Montgomery County, and Delaware County. However, I also concluded——

Mr. Littleton: If Your Honor please, I move that the answer be stricken because it is not within the limits that [fol. 2318] Your Honor put on his qualifications.

Mr. Reycraft: The question I asked was whether he had given consideration to the availability of business of financing service and what areas they go to.

The Court: For whatever weight it carries, I will let it stand.

Mr. Littleton: May I just ask that that be a continuing objection?

The Court: It may be.

Mr. Reycraft: Will you read the question and the answer.

The Court: He has answered it. We are waiting for a question.

Mr. Reycraft: May I ask that he read the question and the answer, Your Honor, so that I may get my trend of thought.

The Court: All right.

(The reporter read as follows:)

"Q. On the basis of this examination what were your conclusions?

"A. My conclusion is that the relevant geographic area for an examination of the effects, if any, of concentration in this particular area is the four-county [fol. 2319] area of Philadelphia County, Bucks County, Montgomery County, and Delaware County. However, I also concluded——"

By Mr. Reycraft:

Q. Would you complete your answer.

A. —that there is a number of markets in which commercial banks compete: One, international; another, national; and the other, my conclusion was the other is local, and I concluded that some banks compete for parts of their business in all three markets. Most banks compete for all of their business in only the local market, and most banks who compete in more than one market, national or local, have the greatest and most substantial part of their business in the local market; and a separate and distinct area

of competition for banks who compete in more than one market can be established in each individual market.

Q. What banks did you rely upon for these conclusions?

A. Again, all of the sources that I mentioned in answer to the earlier question.

Q. Will you particularize with reference to the data that you relied on for your four-county area conclusions?

A. The question that is involved in the four-county area [fol. 2320] is specifically, what is the geographic area which should be defined as the local market? In other words, assuming that the banks do compete in international, national, and local markets, the question of national market is relatively simple. It is the United States. The question of the geographic area of the international market today is the world. The question of the local market is a matter of determination to be determined on the basis of the information that can be gleaned and gathered in each individual situation. Every geographic area is different and depends upon the situation in the local area that is specifically involved.

Q. And what are the statistics on which you relied in this particular area?

A. The statistics that I relied upon primarily were the statistics developed by the banks themselves in response to a 1955 inquiry by the Federal Reserve Board involving an examination of the nature of their commercial and industrial business and an analysis in 1960 involving a complete examination of the nature of their deposit business, both time and demand, and the nature of their loaning business.

Q. And how did those studies bear upon your conclusions?

[fol. 2321] A. Those studies indicated that the overwhelming proportion of the total business, overwhelming to me,—I will give you the date as we go along here—of the total business of each of these banks is done within the geographic area encompassed by the boundary lines, the outer boundary lines of these four counties that I mentioned; and I therefore concluded that the local market in which these banks compete is the four-county area that I have previously described, although the statistics also indicated that the two large banks, the Girard and the PNB,

do also compete in the national market and to a limited degree in the international market.

Q. Will you refer specifically to these statistics, whatever percentages were persuasive to you as showing this conclusion.

A. Because of the nature of the data, I will have to refer to the material that I collected, so I will take a look at the individual tables.

Q. When you refer to Government's exhibits, Dr. Goodman, will you give the numbers of them.

A. Yes. In essence, in coming to a conclusion here, I had the opportunity of examining statistics collected by the banks and reported by the banks in their correspondence, inter-office correspondence, or in memos one to the [fol. 2322] other within an individual bank, not of one bank to another, but of information given within the banks to various parties within the bank.

I had information collected by a committee of both banks once the merger was determined upon, and I had information collected by the Federal Reserve Board of Philadelphia in reporting upon the nature of the market, of banks in the Third Federal Reserve District, of which Philadelphia is a part.

For the purposes of this discussion now I will start off with a discussion of my conclusion as to the market based upon, first, the data collected from the banks by the Federal Reserve Board in 1955, and then we can go, if you like, to other parts of the analysis.

Q. What is the bearing of the 1955 data?

A. Government's Exhibit 9, which is Table 9, is an analysis of commercial and industrial loans of the Philadelphia National Bank as of October 5, 1955, showing the location of the borrower.

Mr. Littleton: Is this the original No. 9 or No. 9 as revised this morning?

The Witness: I have both the old and the new here. I [fol. 2323] am looking at the revised copy.

Well, I think the first set of data reported, the first question to examine, is where do the loans of less than $50,000 originate for the Philadelphia National Bank, and we see that the number of loans that originates within the four-county area is 72 per cent. 72 per cent, therefore, in num-

ber of the loans of less than $50,000, which is a substantial bulk of the loans made by the Philadelphia National Bank, originate in the four-county area.

Now, loans from $50,000 to $100,000, 57 per cent originate in the four-county area. Therefore, again, over half of the loans in number originate in a geographic area of these four counties, the four counties of Philadelphia, Bucks, Montgomery, and Delaware.

Larger loans show the same pattern. $100,000 to $250,000, 58 per cent of the loans of $100,000 to $250,000 originate in the four-county area.

56 per cent of the loans of a quarter of a million to half a million.

Now, as the loans get larger, the $500,000 to $1 million loans, we have 41 per cent originating in the four-county area, and the loans of $1 million or more, in number, 57 per cent.

[fol. 2324] So we see that of all the loans examined, the categories, then, of the loans, indicate that for the smaller loans, 72 per cent originate, of the loans of less than $50,000, originate in the four-county area, and for the larger loans over 50 per cent originate in the four-county area, for the Philadelphia National Bank.

Now, then, for the Girard: The Girard is Table 10, which I assume is Government's Exhibit 10, and again we have the new and the old, Table 10 revised. Table 10 originally showed two categories, one million or more, and loans of less than a million, and the Table 10 revised shows the categories by individual group, and here we see that of the number of loans from $1 to $50 thousand, 84 per cent originate in the four-county area, 84 per cent of all the small loans less than $50 thousand originate in the four-county area; 78 per cent, less than $100,000; 77 per cent of the $100,000 to $250,000; 64 per cent of the $250,000 to a half million; 67 per cent of the $500,000 to a million; and the very large loans, $1 million or more, the percentage drops down sharply, 30 per cent, indicating that for the Girard its very large loans of a million or more are made substantially outside of the four-county area.

[fol. 2325] By Mr. Reycraft:

Q. Did you examine any data as of a later date?

A. Yes, I examined data of a later date, and the later date is 1960, when we have an analysis of the information presented based upon the statistics of the banks in 1960. I have reference to Table 21, whatever exhibit that is, whatever Government's exhibit Table 21 is.

Q. That is Government's Exhibit 21.

A. Government's Exhibit 21, Table 21, shows Philadelphia National Bank, loans and lines of credit under $50,000 in 1960. Although some of the data evidently is based upon 1960, some of the tables are based upon information as of 1960, some are based on information as of 1961. For the specific characteristic that we are examining, the date change makes little difference, because our focal point is the proportion of the total business that originates within a geographic area, and within a span of several months it simply does not change.

Table 21, then, indicates loans and lines of credit of less than $50,000, for the Philadelphia National Bank, 81 per cent of all of their loans originate within the four-county area. These are loans, commercial loans, exclud-
[fol. 2326] ing consumer credit and mortgage loans.

For mortgage loans of less than $50,000, 89 per cent in number originate within the four-county area.

Of time credit loans, 84 per cent originate within the four-county area.

The lines of credit, most of the information is not available, and I think that since most of it isn't available, these are the major statistics that we can apply to.

Then this again indicates that in this particular situation over 80 per cent for the Philadelphia National Bank of all of their business originates within the four-county area. The rest of it is spread all over the United States—in essence, 10 per cent in other parts of the United States, 8 per cent all over the rest of Pennsylvania. So the major market, then, for the small loans, less than $50,000, is the four-county area, the local market.

Q. What is your conclusion with reference to the availability of financing for businesses by size with respect to the geographic area?

A. With respect to geographic, practically all small and

intermediate sized business is restricted to the local markets [fol. 2327] for banks funds. They are restricted to the local market for bank funds primarily because the bank knows them best, since the bank is dealing with them in all of their other financial transactions, and since the bank services them for all of their other financial needs, the costs as well as the knowledge which the bank has of the local business is unique, which no other bank outside of the local area can match. This being the case, I and most observers of the source of bank funds for small and intermediate size business conclude that they are primarily and almost solely local market bank borrowers.

Q. These conclusions apply to small and intermediate sized business in the Philadelphia area?

A. Yes, they do.

Q. Did you make any study of the types of loans which are available to business and whether they varied by the size of the business?

A. Well, the question comes up as to, for those short-term funds that are made available by financial intermediaries to business, is any or is any significant amount of it available to smaller and intermediate sized businesses. The Prudential Life Insurance Company is the only substantial life insurance company that has established a spe- [fol. 2328] cific commercial and industrial lending department; and I was curious to see if this particular insurance company felt that it could successfully invade the small and intermediate sized business lending market, since most insurance companies, practically all insurance companies, simply do not invade the business loan market to any substantial degree, practically none in the less than one year type duration loan; and Gordon McKinley, the chief economist for the Prudential, wrote an article in "Law and Contemporary Problems," where he discussed the Prudential's venture into commercial and industrial loans, and he pointed out, as have all others who thought about it in general, but he pointed it out from the point of view of his particular company, that they simply couldn't economically advance funds to businesses of less than a million dollars, for all practical purposes, in assets.

In other words, the expense, relatively speaking, was much too high for them to lend short-term money to the

smaller business; and in addition they pointed out that the smaller businesses' credit worthiness was ordinarily less than the larger businesses who were available to them, and, in addition, the cost of making funds available to [fol. 2329] smaller business was relatively so large as to exclude the Prudential Company from the small business market; and this buttressed all observations that one is able to make as to the availability of such funds to small and intermediate sized business from institutions other than commercial banks for that very substantial part of their needs, which is short-term funds.

Q. Did you examine any data with reference to the interest rates paid by businesses by size?

A. Yes. For that information I examined the statistics of the banks, and I examined the statistics collected by the Federal Reserve Board in their 1955 and in their 1957 study, and I collected the evaluations of the Federal Reserve Bank of Philadelphia and other banks, of other supervisory agencies, and the statistics are quite clear, and that is that smaller business pays the highest rates of interest, and significantly higher than large business, primarily reflecting two things: One, the additional cost of serving smaller loans, and, two, ordinarily the less credit worthiness of a small business relative to a large.

[fol. 2330] Q. Can you refer to any statistics on which you base that conclusion?

A. Yes. If you will give me a minute I will get the statistics.

You will have to give me a minute here. We have some statistics for the figures in general for all sizes of business in the United States as a whole, in which we indicate in Government—what is it, Exhibit 63—indicating that the interest rate varies by size of borrowers for the country as a whole and varied from an average of 5.4 per cent for all borrowers, to 6.4 per cent for less than $50,000 in asset size to 4.3 per cent for $100,000 or more in asset size.

But we also have the figures for the Third Federal Reserve District, which I am trying to locate, and these figures clearly bring out the same statistics for the Third Federal Reserve District, that in this district smaller borrowers pay higher rates of interest than do larger.

As a matter of fact, Government Exhibit 70——

By Mr. Littleton:

Q. What is that last that you referred to, that last reference?

A. This is Government Exhibit 63.

Q. No, the one that you referred to after that.

[fol. 2331] A. I have some statistics collected by the Federal Reserve Bank of Philadelphia on the interest rates paid by size of borrower in the Third Federal Reserve District, which bear out——

Q. Is that a Government exhibit?

A. Sir?

Q. Is that a Government exhibit?

A. No, it is not. I say I am looking——

Q. Do you have the figures?

A. I am trying to find it.

In addition, Government Exhibit 76——

Q. Wait. Excuse me.

Do you mind if we see it before you testify about it?

A. Rather than take the time, I thought I would look at another exhibit which I can lay my hands on.

Q. Don't worry about the time. I would like to see it while you are testifying about it.

A. O.K. All right. I will find it, then.

I don't appear to have that with me at this minute. I will have to get it.

Q. Did you have any conversation with Federal Reserve about it?

A. This information, I collected from the Federal Reserve [fol. 2332] District Monthly Review. It was published in a Monthly Review.

Q. Did you have any conversation with the Federal Reserve people in Philadelphia about it?

A. I got the Monthly Reviews, some monthly reviews I got in Chicago——

Q. Won't you answer my question?

A. I am just trying to answer your question, in the sense that I did have conversations with the librarian as to the various things that they have in the library.

Q. Did they say that this figure couldn't be broken down?

A. Pardon me?

Q. Did they say that this figure could not be broken

down, and if it were, it would not be statistically valid because it would have to be by sample?

A. Well, I did not have any discussion with any statisticians or economists of the Federal Reserve District about the statistics which they published.

Q. Did the figures that you have referred to and that you are not apparently able to find at the moment say that they were by sample?

Mr. Reycraft: I will object until we have the exhibit. Then we can talk about it.

Mr. Littleton: All right, if we find the exhibit, but I don't want to pass on and just leave what the doctor has [fol. 2333] said in the air until I have seen the exhibit.

If Your Honor please, we are not being captious. We asked Federal Reserve for exactly the same information and were told that if it were able to be broken down it would not be valid statistically because it would have to be by sample.

The Court: Let's find the records that he relied on.

It is getting on toward 12:30; it is almost 12:25. We will continue at 2 o'clock.

(Recessed for luncheon at 12:21 o'clock P. M.)

[fol. 2334] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted.

PLAINTIFF'S EVIDENCE (Resumed)

OSCAR GOODMAN, resumed.

Direct examination (resumed).

By Mr. Reycraft:

Q. Dr. Goodman, were you able to locate the exhibit that you were seeking prior to the recess?

A. Yes. Prior to the recess Mr. Littleton and I were talking about interest rates——

Mr. Price: I can't hear you.

Mr. Littleton: We can't hear you at all.

The Witness: Interest rates in the Third Federal Reserve District as reported by the Federal Reserve Bank of Philadelphia.

I have located a reference taken from the June, 1958, Monthly Review of the Federal Reserve Bank of Philadelphia and it says that small business is at a disadvantage when it comes to interest rates. Small business generally pays more than large borrowers for bank loans, and the [fol. 2335] Federal Reserve Bank of Philadelphia gives the following reasons—higher administrative costs, including investigation and servicing, and higher risks, including such things as management, assets, ability, and size.

In 1956 another study——

By Mr. Littleton:

Q. Before you leave that, are they referring to small business generally or are they referring to small business in the Third Federal Reserve District?

A. They are referring to the results of the 1957 study made of bank lending in the Third Federal Reserve District.

Q. What is it you are reading from, Doctor?

A. This is a note that I took from the review, from the business review.

Q. You don't have the business review there?

A. No. I do not.

By the Court:

Q. What month?

A. June, 1958.

Mr. Littleton: Are you going to mark this note of his?

Mr. Reycraft: If you wish.

The Witness: I have one more note to read from the same note.

[fol. 2336] By Mr. Reycraft:

Q. Proceed.

A. In 1956, the Federal Reserve Third District was evaluating the results of the 1955 loan survey in the Third

District and they found that rates varied from 3 to 6 per cent, but the lower rates were for large loans, and almost 50 per cent of the loans had rates of 6 per cent or more; but with the smaller loans, in dollars, although 50 per cent—this is my interpretation now—although 50 per cent in number had rates of 6 per cent or more, in total dollars they were 10 per cent, indicating the very large number of small loans in the Third District.

By Mr. Littleton:

Q. And that was from which issue?

A. This is from the April, 1956, issue of the Monthly Review of the Federal Reserve Bank of Philadelphia.

Now——

Q. I take it that you don't have a page reference, do you?

A. Page 11 of the 1956 review. I do not have the page number from the 1958 review.

Now let's see if there are any other Philadelphia references.

That is my Philadelphia rate reference, the specific reference in those two Federal Reserve bulletins. I think this [fol. 2337] again bears out the fact that practically—I think all investigators of bank-loan rates come to the conclusion that small business generally pays higher interest rates on bank loans than large business, for sound economic reasons.

By Mr. Reycraft:

Q. Will you state what those reasons are, Dr. Goodman?

A. The reasons are as I have stated. The loans are typically smaller, the cost of servicing the loan is typically larger; and as a general rule, speaking broadly, there are a larger number of risks that must be very closely investigated and, in addition, from an economic point of view, small business operates in a local market and, therefore, has a smaller number of banks to call upon than does large business, the largest businesses.

Q. Dr. Goodman, have you completed your examination of these data? Are there any other data which you referred to here?

A. Well, if we are speaking of rates and amounts, I have data and observations which have to do with the relative dependence of small business upon banks relative to bigger business, and the relative disparity in terms or rates.

Q. And what do those data show?

A. Well, did you want to mark this particular page?

[fol. 2338] Mr. Reycraft: Will you mark as Government's Exhibit 178 a one-page Thermo-Fax document. At the top of the document is the number "14."

(Handwritten document produced by the witness Goodman, bearing at the top the number "14" was marked Exhibit G-178 for identification.)

By Mr. Reycraft:

Q. Dr. Goodman, you were about to refer to some other data you examined in reaching your conclusion.

A. Yes. I will refer now to a tabulation of average interest rates on loans made, member bank loans to business in 1955 and 1957; and in each of these categories the interest rates on loans to the smaller-size business are larger than the interest rates on loans to larger-sized businesses.

For all loans, for short-term loans, for intermediate loans (which is one to five years), and for long-term loans (which are over five years), the rates consistently are higher for the smaller businesses and smaller for the larger businesses.

Q. Will you identify that table you are referring to?

A. This table is called "Interest Rates on Member Bank Loans to Business, 1955 and 1957, by Size of Borrower and Maturity of Loan."

The note that I have in front of me is taken from a [fol. 2339] study on financing small business published in April of 1958, but it is based upon the statistics published in the April, 1958, Federal Reserve Bulletin, which are a result of the 1957 analysis, and also a comparison of the 1955 study and the 1957 study.

The one that I am referring to is a reproduction which was published in a publication called "Financing Small Business".

By Mr. Price:

Q. May I ask what page that was on, Doctor?

Mr. Reycraft: I am going to mark this.

The Witness: Page 388.

Mr. Reycraft: Will you mark as Government's Exhibit 179 for identification a one-page document which has a table on the left-hand side entitled "Table 10—Interest rates on member bank loans to business, 1955 and 1957, by size of borrower and maturity of loan"; and on the right-hand side, "Table 11—Size-of-bank variations in interest rates on business loans, by size of borrower."

(1-page document, being reproduction of pages 388 and 389 of April, 1958, Federal Reserve Bulletin, was marked Exhibit G-179 for identification.)

By Mr. Reycraft:

Q. Do you have a copy of this, Doctor?

[fol. 2340] A. Yes, I have a Thermo-Fax copy.

Q. Dr. Goodman, did you also make reference to "Table 1, Business loans member banks, 1955 and 1957, by size of borrower," from the same study?

A. Yes. I have.

Q. What does that table show?

A. Well, let me get that table.

Mr. Reycraft: Will you mark as Government's Exhibit No. 180 a one-page document with a reproduction of "Table 1—Business loans to member banks, 1955 and 1957, by size of borrower," which appears at page 375 of the same study.

(Photocopy of "Table 1—Business loans to member banks, 1955 and 1957, by size of borrower," was marked Exhibit G-180 for identification.)

The Witness: I was answering a question relative to the information I had here.

Table 1 of the 1957 study is a comparison of the amount of loan, the amount of increase or decrease in the loans made available by member banks to business, indicated by size of borrower, with a comparison, 1957 compared to 1955.

This particular table shows that in 1957, as compared to 1955, the smaller businesses—the smallest business cate-
[fol. 2341] gory, less than $50,000 in assets, received 3 per cent less in amount of loans in 1957 than they did in 1955.

On the other hand, the largest businesses received substantial increases in the amount of loans that they were able to call upon in 1957 relative to 1955, such as the category from $5,000,000 to $25,000,000 received 25 per cent more, the category from $250,000 to $10,000,000 in size assets received 25 per cent more. The very largest businesses, $100,000,000 or more, received 66 per cent more in business loans from member banks in 1957 than they did in 1955.

The statistics then clearly indicate that the amount of loans which smaller businesses were able to get was substantially restricted relative to the amount of bank loans which larger businesses were able to get in 1957 relative to 1955.

By Mr. Littleton:

Q. May I ask, are we still talking about the Third Federal Reserve District?

A. No. The statistics are for all member banks in the United States.

Q. In the United States, and all borrowers in the United States?

A. These statistics are of all borrowers in the United States, by size, and they indicate the amount of loans in
[fol. 2342] number, the amount in dollars, and the average size of the loan; and they show the amounts and the numbers received in the various size categories, and they indicate very clearly that in times of tight credit, such as 1957, compared to times of relative monetary ease in 1959, smaller business found it much more difficult to receive bank loans relative to large.

[fol. 2343] Q. Does this study contain data from the Third Federal Reserve District?

A. Let me examine my data, and we will take a look at it for the Third Federal Reserve District.

For the Third Federal Reserve District I referred to several items taken from the monthly business review of the Third Federal Reserve District. The first is an article by K. R. Bach, vice president of the Third Federal

Reserve Bank located here in Philadelphia next door to the court house, and Mr. Bach writes on the subject of "Rediscovery of monetary policy, some problems of application." This is written in August of 1955, and he refers to such things as the tone of the market, tone of the market referring, relatively speaking, to the availability of credit.

He, for example, indicates that the tone of the market involves the supply of money, the availability of money, and the cost to him who demands funds, and Mr. Bach says that one response to tightness in credit is to screen applicants more carefully, examining the fringe of unsatisfied borrowers, not necessarily to ask higher rates of the small borrowers. In other words, he indicates that this is speaking generally and does not refer to the particular study. [fol. 2344] It is his observation that in times of tight credit standards of lending are raised and a larger number of borrowers are unable to receive funds.

Mr. Littleton: What page of the "Business Review" does this appear on?

The Court: We have to establish something here, Mr. Littleton. On a couple of occasions Mr. Reycraft has objected to your interruptions.

Do you object, Mr. Reycraft, to this interruption to clear up pages, and so forth?

Mr. Reycraft: No.

The Court: You have on one or two occasions exhibited a little concern.

Mr. Reycraft: The question is how long it goes on.

The Court: I just want to make sure that this is all harmonious.

Mr. Littleton: If the doctor would just state his data so I get a memorandum on it, I will be satisfied.

The Witness: Ordinarily in taking material from the "Monthly Review" of the Federal Reserve Banks, except for the one in New York, I usually don't put down page numbers, because the reviews are very small—they are per- [fol. 2345] haps eight to twelve pages—and being so small, it is very easy to find the article. Sometimes I have the page, sometimes I don't. This particular one I do not have the page.

Now, then, the Federal Reserve Bank of Philadelphia in June of 1958 analyzed the results for the Third Federal

Reserve District of the 1957 loan survey, and they suggest—I have the page here, Page 15—they say that monetary restraint caused some banks to change their lending policies to the detriment of small borrowers. Credit standards are upgraded. There is more stress on compensating balances. Longstanding customers are given preference and large are favored over small. However, not all banks revised their lending policy, according to the analysis of the Federal Reserve Bank of the Third District, of the 1957 study. They suggest that small banks, specialists in small business financing, did not do as much changing of their lending policies as did big banks. They say big banks did most of the changing of the standards of their lending policy, and they say that the results of the Federal Reserve survey suggests that tight money bore harder on small business than on large business.

They go on to analyze certain aspects of the tight money [fol. 2346] situation in the Third Federal Reserve District. For example, they suggest that in terms of the increase in dollar loans, large business was able to increase its total amount taken, '57 vis-a-vis '55 by 50 per cent, medium size business by 28 per cent, and small business by 10 per cent. They suggest that there may be an explanation for this phenomena in a change in demand. In other words, the statistics clearly indicate that small business was discriminated against, defining discrimination in the sense that they were able to get substantially lesser funds relative to large business.

Now, in terms of explaining the reason for this, their general statement is that the results of the survey suggest that tight money bore harder on small business than on large. However, they suggest that perhaps there were some other reasons, and one possible reason, although there is no evidence, is that perhaps there was a change in demand. Perhaps small business did not want as much money. There is no evidence to bear out this observation.

By the Court:

Q. What evidence is there to bear out the other?

A. The evidence to bear out the other, Your Honor, is [fol. 2347] that the dollar figures clearly indicate that small business got substantially less than large business.

Q. And from that fact they drew conclusions; is that it?

A. The conclusion was drawn, Your Honor, by whoever wrote this particular article, and his over-all conclusion is that the results suggest that tight money bore harder on small business than on large business.

Q. And he suggested that there might be another reason which he didn't explore, that small businesses may not have asked for more than 10 per cent additional credit; is that right?

A. This is the suggestion made. The additional data that I have here, which I will be glad to go into as we examine it, has examined the phenomenon.

Q. Who is this person that wrote that?

A. This particular article is written in the "Monthly Review" and there is no author given.

By Mr. Reycraft:

Q. Is that the Monthly Federal Reserve Review?

A. The Monthly Federal Reserve Review of the Third District.

By the Court:

Q. And what month is that, Doctor?

A. This is June, 1958.

[fol. 2348] By Mr. Reycraft:

Q. Is that an official publication of the Third Federal Reserve District?

A. Yes, I believe it is. I believe it is for informative purposes for those interested in the affairs of money and credit in the Third Federal Reserve District.

Q. You were about to refer to some other data on which you relied, Dr. Goodman.

A. If the subject is to be discussed of interest rates, we started out by examining whether there is a difference in interest rates, and we examined one statistic. There are a number of statistics dealing with the difference in interest rates, which I think would be desirable, and then to move to the subject of the question of discrimination.

Mr. Littleton: Before you do that, Doctor, I move to strike out everything that the doctor gave as an opinion with regard to discrimination against small banks, because

obviously he wasn't giving his opinion; he was reading from something published by some unknown person in the Federal Reserve.

The Court: He was giving what he considered. He didn't express that as his opinion. He said that this is part of [fol. 2349] the data which he considered. I don't believe he has expressed his opinion, or I, at least, haven't so understood it.

Proceed, Mr. Reycraft.

Mr. Reycraft: Yes, sir.

The Witness: What I would like to do, if we are going to study the question of discrimination of interest rate in general, is to continue to examine whether there is in fact a difference in interest rates between businesses of various sizes and in the amounts that they take, and then to consider the——

The Court: Unfortunately, Doctor, this does not happen to be a seminar. We are trying a law suit. The questions directed to you by Mr. Reycraft will guide the discussion.

Proceed, Mr. Reycraft.

By Mr. Reycraft:

Q. Dr. Goodman, in terms of numbers, do you have any data which indicates what types of borrowers accounts are the largest number of commercial loans?

A. Yes. The largest number of commercial loans are accounted for by loans to small business, the smaller sized businesses.

Q. What is the data on which you rely for that con- [fol. 2350] clusion?

A. Well, we can refer to the exhibit which we just looked at, and that is Table 1, the number of loans made by member banks in 1955 versus 1957, where it clearly indicates that the largest number of loans, 503.1 thousands were to businesses of less than $50,000 in total asset size, and that the number of loans to the very largest businesses were extremely less. For example, the number of loans to businesses of $100 million or more were 6000, and to $25 million or more were 4000, and to $5 million to $25 million were 11,000, and $1 million to $5 million, 38,000; and a quarter of a million to $1 million, 126,000; $50,000 to a quarter of a million, 415,000; and less than $50,000 in assets, 503,000.

These are the numbers in thousands of loans made in 1955.

We have also statistics in 1957, and, generally speaking, the same relationship exists—502,000 in number made to businesses of less than $50 thousand in asset size; 6,000 in number made to businesses of a hundred millon or more.

Q. Dr. Goodman, do you have any data with reference to the business population of the Philadelphia area?

A. Yes. The Philadelphia area is primarily made up of [fol. 2351] small businesses. Let me generally give the basis for this. The Department of Commerce of the City of Philadelphia publishes statistics on the nature of Philadelphia's economic activity, and they indicate that Philadelphia has 4200 manufacturing establishments, with 277,000 employees, but in retailing they suggest that there are 24,000 establishments with 112,000 employees. Retailing is primarily a small business field.

Wholesaling has 5000 establishments, and, generally speaking, the great majority of wholesaling would be classified in the small business field.

Service industries are all small business except for very, very few exceptions, and there are 13,000 service establishments in the Philadelphia area.

Philadelphia, therefore, is primarily an area which would be characterized that the great majority of businesses in this area are small business.

Q. Have you given any consideration to compensating balances and do you understand what that term means?

A. The term "compensating balances" ordinarily refers to the proportion of a business loan which the bank requires that the borrower keep on deposit. In other words, if a borrower were to $10,000 and the compensating balance requirement was 20 per cent, $2000 would be the minimum [fol. 2352] size of the average balance, or the daily balance in some cases that the bank would require of the borrower.

Now, banks are somewhat flexible in their compensating balances. They tend in times of easy money to ease up on compensating balance requirements, because this is one competitive way in which they can ease the burden of rates. Obviously, if one must keep $2000 on deposit of a $10,000

loan, he in fact is paying interest on $10,000, but only has use of $8000, and this, in fact, increases his rate.

We typically find that banks are much more insistent on compensating balances and being rigorous in the application of compensating balances in times of tight credit relative to easy credit, and we find that this is one of the ways in which banks can increase interest rates without increasing the contract rate itself, because they can ease up on compensating balances and require a much smaller proportion, and therefore the business gets a larger amount of money to use and pays relatively a smaller amount of money for the use of it, and subsequently if compensating balances are rigorously applied the cost of the money, the average cost of the money, would be increased.

[fol. 2353] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 181 a one-page document headed "Number of Commercial and Industrial Loans of Philadelphia National Bank and Girard in Philadelphia, Bucks, Montgomery, and Delaware Counties, Pennsylvania, as of October 5, 1955.

(Document headed "Number of Commercial and Industrial Loans of Philadelphia National Bank and Girard in Philadelphia, Bucks, Montgomery, and Delaware Counties, Pennsylvania, as of October 5, 1955," was marked Exhibit G-181 for identification.)

Q. Dr. Goodman, referring to Government's Exhibit No. 181, what does that exhibit show with reference to your conclusion on the size of borrowers from banks in the four-county area?

A. The exhibit shows the following information, that for the Philadelphia National Bank the total number of borrowers who borrowed funds in the loan range of 1 to 50,000 were 2670 in the four-county area, were 300 borrowers from $50,000 to $100,000, were 240 borrowers from $100,000 to $250,000; were 78 borrowers from $250,000 to $500,000, were 66 borrowers from $500,000 to a million, and were 27 borrowers at a million and over.

[fol. 2354] Of the total number of borrowers in the four-county area lent to by the Philadelphia National Bank in their commercial and industrial loan category in 1955, a total of 3381 borrowers, 2670 were small borrowers who borrowed less than $50,000. I don't have the percentage

here, but the percentage looks to be very close to about 80 per cent, I would imagine.

For the Girard Bank we have in the four-county area a total number of borrowers of 1783, of which 1146 borrowed less than $50,000.

This is a substantial number. Probably around 60 per cent of the total number of borrowers from the Girard borrowed less than $50,000, and for the two banks combined, 3800 of a total of 5100 borrowers borrowed less than $50,000, bearing out the statistics that the overwhelming proportion of borrowers who borrow from each and both of these banks are fundamentally very small businesses or who need very small amounts, relatively smaller amounts of funds. These borrowers are the kinds of borrowers who are wholly restricted for all practical borrowing reasons to the local market.

Q. Dr. Goodman, have you given any consideration to the changes, if there were any, in the available sources of [fol. 2355] commercial borrowing to the small and medium sized businesses in the Philadelphia?

A. Let me refer to my information on Philadelphia here.

The 1955 analysis of the Federal Reserve Bank of Philadelphia, of the results of the loan survey—the analysis published in 1956 of the results of the loan survey of 1955—indicated that for Philadelphia for this area most of these borrowings are small, but that large business accounts for most of the dollar amount outstanding. This I believe bears out the same statistic that we looked at for the individual banks. This is representative of the area.

In addition in Philadelphia several studies of Philadelphia commented upon the relative availability of credit to small versus larger businesses, particularly as it applied to the relationship of a bank to the borrower or the relationship of banks to borrowers depending upon the nature of the banks in the market.

Now, one such study that I looked at was the so-called Keith report, which I looked at at the beginning of this study, of this over-all study, and evidently in the analysis in the Keith report the writers there seemed to feel that, on the basis of interviews, suggested that some small borrowers might be excluded from a branch office because of [fol. 2356] the more rigorous financial requirements of the

large city institution, that with higher credit standards some borrowers who could have received money from smaller banks would not be able to receive money from the larger and more efficient banks.

Along the same line of the differentiation in the Philadelphia area which would affect the availability of funds for small business vis-a-vis large, as the nature of the banks in an area change, is some information which is gleaned from some of the memoranda which I was able to look at, taken from bank records.

For example, I had a copy of a memorandum dated February 10, 1959, to Messrs. Geoffrey S. Smith, George H. Brown, Jr., and O. H. Beadle, from S. S. Gardner. It is in reference to an application by the Citizens and Southern Bank and Trust Company for permission to open a branch at the southeast corner of Spring Garden and Broad Street, and the question posed is, should the bank object to the application, and the writer, Mr. Gardner, says, "I do not recommend that we protest this application. The bank itself is very small and can hardly be considered a threat to our commercial business."

[fol. 2357] The implication that I draw from this is that small banks are more favorably inclined to smaller business, and in an area where the number of small banks disappears or is done away with rapidly, the availability of bank credit for small business is likely to suffer substantially.

In addition, I have a memorandum from Mr. J. J. Feeney, Jr., to R. R. Williams, vice president of the Girard Trust Company——

[fol. 2358] Q. Doctor, just a moment until I identify this for the record.

Will you mark for identification as 182 a memorandum dated February 10, 1959, from Mr. S. S. Gardner to Messrs. Geoffrey S. Smith, George H. Brown, Jr., and O. H. Beadle.

The Court: Wasn't that put in yesterday? The one that he has read was put in yesterday.

Mr. Price: 175.

Mr. Reycraft: You were then referring to Government's Exhibit 175. May I have Government's Exhibit 175?

By Mr. Reycraft:

Q. Now, what is the next document that you referred to, Dr. Goodman?

A. I referred to a memorandum from J. F. Feeney, Jr. to R. R. Williams, Vice-President of the Girard Corn Exchange Bank, dated April 1, 1957; and the subject is correspondent banking. The memo is asking for more information to be supplied to Girard representatives calling upon potential correspondents. The significance of the memo to me is that it says:

> "It is, of course, not practical to list every director of every bank where we are calling, but in many cases, [fol. 2359] particularly in the cases of smaller banks, the directors take such an important part in the operation of the bank that somehow we should know who the directors are and what their business is."

Again I draw the conclusion that in the opinion of the writer of this memo, as well as in my own opinion, backed up in this particular market by this memo, the directors of a small neighborhood bank take a much closer interest in the affairs of the bank and in the affairs of the borrowers of the bank, particularly their small borrowers, because the overwhelming proportion (I believe 92 per cent here)—I have a statistic here which we can find quickly—yes, 92 per cent of the number of business loans of banks with deposits of less than $10,000,000 were to firms with assets of less than $1,000,000.

This is as compared to the corresponding percentage for banks with deposits of $10,000,000 to $100,000,000, which was 74; and in the largest banks, those with deposits of $1,000,000,000 or over, the percentage is 12.

My conclusion is that in an area where the number of smaller banks is substantially reduced, the borrowing opportunity for small business is materially adversely affected.

[fol. 2360] By the Court:

Q. Doctor, before you go on, you have read two memoranda and you have drawn your own conclusions from them.

Have you taken the trouble to find out who these men are and what authority they had to speak for the bank?

A. I do not know these men.

Q. Are they men who might have a policy-making part in the bank; do you know that?

A. I do not.

Q. Might they be clerks?

A. I doubt that, Your Honor. It is unusual for a clerk——

Q. Well, might they be?

A. Sir?

Q. Might they be?

A. It would be most improbable.

Q. Might they be solicitors?

A. (No response.)

Q. And if they were, would that change your opinion?

A. Well, my opinion, Your Honor, is not based on these two documents. It is based upon an analysis of the statistics which indicates that the overwhelming proportion of borrowers, at least from small banks, are small businessmen; and the observations not only by myself but by others who have studied the problem, that relatively speak- [fol. 2361] ing small business is much more important to small banks than it is to large, by virtue of the fact that the lending limits of small banks (less than $10,000,000) preclude them from a substantial degree from lending to the very largest businesses.

Therefore, to them, small business is relatively much more important because they are excluded, for all practical purposes, from the large business market, except for those very few instances where they may be able to participate in either overlying loans or perhaps pool loans sent down by correspondents.

Q. They cultivate their own vegetable garden; is that it?

A. I think that very aptly describes it, Your Honor.

Q. I think that that is right and I think we can all agree. I don't think we will have any argument about that in this or any other case, that they have to keep within their limits as they have a certain area, certain fields to cultivate, and they cultivate them assiduously; is that it?

A. Yes, sir.

The Court: All right. I think that is a fact of life that doesn't need you as an economist or me as a lawyer or judge to belabor. I think we can all agree on that.

It is mid-afternoon. Let's take a ten-minute re-
[fol. 2362] cess.

(A recess was had.)

Mr. Reycraft: Will you mark as Government's Exhibit 182 a one-page table headed "Total Number of Loans and Proportion of All Loans of Philadelphia National Bank and Girard Made to Borrowers in Philadelphia, Bucks, Delaware & Montgomery Counties."

(Document entitled "Total Number of Loans and Proportion of All Loans of Philadelphia National Bank and Girard Made to Borrowers in Philadelphia, Bucks, Delaware & Montgomery Counties," was marked Exhibit G-182 for identification.)

The Court: These are compilations of the previous tables?

Mr. Reycraft: Yes, Your Honor. That's correct.

Will you mark as Government's Exhibit 183 a one-page table headed "Changes in the Number of Banks with Head Offices in Philadelphia Shown by Size of Bank."

(Document entitled "Changes in the Number of Banks with Head Offices in Philadelphia Shown by Size of Bank," was marked Exhibit G-183 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 184 a one-page table headed "Commercial Banks in the
[fol. 2363] Four County Area (December 1960)."

(Document entitled "Commercial Banks in the Four County Area (December 1960)" was marked Exhibit G-184 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 185 a nine-page document headed "Changes in Commercial Banking in Philadelphia Four County Area as Measured by Changes in the Number of Independent Banks with Head Office in the County."

The Court: That is nine pages, Mr. Reycraft?

Mr. Reycraft: Yes, Your Honor, nine pages.

(9-page document entitled "Changes in Commercial Banking in Philadelphia Four County Area as Measured by Changes in the Number of Independent Banks with

Head Office in the County," was marked Exhibit G-185 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 186 a one-page document headed "Table 3.—Relative importance of the largest commercial banks in Continental United States, Dec. 31, selected years, 1920-58."

(Document entitled "Table 3.—Relative importance of the largest commercial banks in Continental United States, Dec. 31, selected years, 1920-58" was marked Exhibit G-186 for identification.)

Mr. Reycraft: Will you mark as Government Exhibit 187 [fol. 2364] a four-page document headed "Commercial Banks with Head Offices in the Four-County Area and Location of their Offices Within the Four Counties (December 1960)."

(4-page document headed "Commercial Banks with Head Offices in the Four-County Area and Location of their Offices Within the Four Counties (December 1960)" was marked Exhibit G-187 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 188 a seven-page document, the first page of which is a letter from Frederic A. Potts to the Hon. Ray M. Gidney, Comptroller of the Currency, dated January 26, 1961.

(7-page document, the first page of which being a letter on the letterhead of the Philadelphia National Bank from Frederic A. Potts to The Honorable Ray M. Gidney, Comptroller of the Currency, dated January 26, 1961, was marked Exhibit G-188 for identification.)

By Mr. Reycraft:

Q. Now, Dr. Goodman, based on your study, have you reached any conclusion with reference to the effect on the availability of business financing to small and intermediate-sized borrowers in the Philadelphia area as a result of the proposed merger?

Mr. Price: May I have that question again, please?

(The pending question was repeated by the report-[fol. 2365] er.)

The Witness: Yes. I have.

I feel that the availability of bank credit to the small and intermediate-size business borrowers will be substantially affected as a result of this merger.

By Mr. Reycraft:

Q. Will you explain the basis for that conclusion?

A. My basis for that conclusion rests upon, Number 1, that small and intermediate-sized borrowers are restricted to the local market for their bank-loanable funds. Therefore, any change in the competitive availability of bank funds will be most felt by smaller and intermediate-sized business.

In this particular situation I examined the banking alternatives in Philadelphia and conclude that a substantial active competitor will be eliminated from the market. When a substantial active competitor of the competitive ability of the Girard Bank is eliminated from the market, there will be a decrease in competitive pressure in the market, and this pressure will most affect those borrowers who are limited to the local market.

Not only does the immediate merger have substantial anti-competitive effect, but these effects are aggravated because of what has preceded the immediate merger—actions taken by these two banks, as well as by others in the [fol. 2366] community, and I point out some of this effect when we examine the changes in commercial banking in the Philadelphia four-county area over the past—over, well, I have figures here from 1940 to 1960 in terms of total, and some summarizations from 1947 to 1960.

Q. What do those figures show with reference to the availability of alternatives for borrowers in the area?

A. Well, let us examine the situation over the immediate past ten years, during which there has been substantial merger activity on the part of both of these banks.

I look at this table and it says 1950 to 1960; it really should say 1940 to 1960, if you will make the correction.

Mr. Littleton: If Your Honor please, if the witness would refer when he speaks to these tables to their identification——

The Witness: I refer to a table headed up "Changes in

the Number of Banks with Head Offices in Philadelphia Shown by Size of Bank."

It is this table.

The Court: Exhibit 183.

The Witness: 1950 to 1960; it should be 1940 to 1960, with the Government exhibit numbers on them.

G-183, if you will change that from 1940 to 1960, this, [fol. 2367] I think, is the starting point. It gives us a perspective, a 20-year perspective in the change in banking alternatives in Philadelphia alone, which is the major part of the four-county area.

All of the four-county area is shown in G-185, which we can take a look at next to examine the detail which G-183 is based upon.

Now, G-183 shows clearly—it is designed to show the changes not only in the number of banks, but the changes in the number of banks by size of bank.

Going back to my original statement, it is not merely the number of banks that is important; it is the market that these banks serve that is also important.

The number of banks is a substantial indicator of the amount of competition in a particular area. It is not the only indicator. To get a complete picture we must look not only at the number, but their relative sizes and their competition within various levels.

You will notice that in G-183, in 1940, there were 24 small banks whose asset size was 0 to $10,000,000. Twenty years later these had been, for all practical purposes, wiped out. There are three left. I think one of them is the Marian Bank.

The names of the banks that are left we can find in G-185. [fol. 2368] If you will turn to the third page in G-185 you will see there listed the banks in Philadelphia and you will see the three banks to which I refer. One is Marian, one is the Sonsitaly, one is the Citizens' & Southern.

There were 24 banks of less than $10,000,000 in size in 1940, practically wiped out by 1960. No unit competition in this range.

In the bank size from $10,000,000 to $100,000,000, there were 15 in 1940. These, too, were substantially eliminated by 1960, there being three left in 1960, and you can see the names of the banks on the third page of G-185.

In the next size class, an effective size class of $100,000,000 to $300,000,000, you will note that competition was reduced somewhat if we measure it in terms of number—five banks in 1940 down to three by 1960; and the names of the banks are listed on page 3, but the degree of competition as measured by numbers is substantially less affected than the wiping out in the lower classes.

And the next class, $300,000,000 to $600,000,000, and we see there that the degree of competition has not been affected. There were no banks in this size class in 1940 and by 1960 there were two.

So one of the results of the wiping out of the small banks was to increase the banking alternatives at the larger [fol. 2369] range; and in 1960, $600,000,000 and over, there were three banks, whereupon there was one in 1940.

I, therefore, conclude this: That the number of banking alternatives for small business particularly were sharply reduced from 1940 to 1960. One effect of this sharp reduction was to increase the number of banking alternatives for the large businesses, the very large businesses in the area, because we can see that the number of banks serving the very large businesses did increase.

This, however, in my opinion, the price of this increase in competition at the very large levels was paid by the small businesses who found a substantial reduction in the smaller banks to whom they are the most important customers.

Now, the interesting thing to me, and again a very important point upon which I rely for the anti-competitive effects of this merger, is that having wiped out the small banks, in my opinion, we now see an effect where the banks are now going to reduce competition at the high level in addition to reducing competition among the branches which have, to a degree, attempted to replace some of the competitive opportunities that were afforded by unit banks.

We see that if this merger is to go through, we see the beginning of the reduction in competition at the high level, [fol. 2370] at the level of banks who now can concentrate on the very large businesses, because they would be reduced from three to two.

As I look at these statistics I can only conclude that based upon the moves which banks have made in the past

—we can only conclude that this merger trend will increase in the future and that the number of banks at the higher level will be reduced even further as the banks must realign their competitive pressures.

In other words, a bank that is to be the size of the resultant bank will exceed its closest competitor in terms of offices, deposits, loans, lending limits, and ability to attract new business to such a degree that an effective competitor could not, in my opinion, and would not, based upon the statistics in the past, stand still. He would have to realign his competitive opportunities in order to make himself more competitive for that part of the total business, the very large businesses with which banks at this level compete.

We will then find, based upon these statistics, a realignment again at the very large level and a further reduction, although the further reduction would merely aggravate what I would consider to be a very substantial lessening of competition based upon the reduction in substantial, com- [fol. 2371] petitive, virile banking opportunities at the high level.

I am most impressed with both of these two banks. They are very sound, in my opinion very good banks, and quite capable of affording substantial competition in the area.

The statistics upon which this table is based are in G-185 and here you can see the effect—what one of the effects has been of this substantial decrease in banking opportunities. If you will look at page 2 in G-185 you will see that from 1940 to 1960, during the time period when the small banks, for all practical purposes, were being wiped out, the concentration in Philadelphia bank resources as measured by the percentage of total Philadelphia bank assets controlled by the six largest banks increased from 73 per cent to 91 per cent. In other words, concomitant with the substantial reduction in number was a substantial increase in the concentration of bank resources into relatively few hands.

During this same period in which the bank resources in relatively few hands increased from 73 per cent to 91 per cent, the number of banks was reduced from 45 to 14, or a reduction of 69 per cent.

Now, here in the balance of the table you will see the

statistics from 1940 to 1960 indicating the numbers of [fol. 2372] banks, indicating their resources.

One point that I might make, and that is to explain why in the same exhibit page 2 shows 14 banks and page 1 shows 16 banks in Philadelphia. I did this because in Table 1 I wanted to indicate all banks with home offices in the county and I included the two who, in my opinion, were not fundamentally doing a commercial-banking operation today, but since they did have a charter could, if they so desired.

Therefore, I included them in the number in Philadelphia on the first page. However, from the point of view of banking resources, I left them off of the second page inasmuch as the application did not include them as competitors, their statistics did not indicate they were competitors, and I felt they simply were not effective commercial banks, but they could be.

That, then, is one of the bases for my conclusion that there would be a substantial reduction in competitive banking opportunities for small and intermediate-sized business in this area.

Now, G-187 indicates the commercial banks with head offices in the four-county area and the location of their offices within the four counties. G-187, it is, I beg your pardon.

[fol. 2373] You will notice that the banks that are involved in the proposed merger, the Girard Trust Corn Exchange and the Philadelphia National Bank, the Philadelphia National has a total of 27 offices in the four-county area—10 in Philadelphia, 5 in Delaware, 7 in Montgomery, and 5 in Bucks; and the Girard Trust Corn Exchange has 38—Philadelphia 20, Delaware 12, Montgomery 6, and none in Bucks County.

The combination results in 30 in Philadelphia, 17 in Delaware, 13 in Montgomery, 5 in Bucks County, for a total of 65.

We now can compare this substantial number of offices and this blanketing of the four-county area with their closest competitor, the First Pennsylvania Banking & Trust Company, with a total of 38 offices, with substantially lesser representation in the contiguous counties.

On the basis of the number of offices, relatively speaking,

and on the basis of the relative drawing power of the two banks in terms of their assets, lending limits, their ability to advertise, their prestige in terms of their size, it is, to my mind, almost inevitable, based upon what the banks have done in the past, that the First Pennsylvania Company could not afford to stand still. It would be my estimate, examining what has happened in the past, that the First Pennsylvania, within a few years, if it intends to [fol. 2374] be as vigorous a competitor as it has been in the past, must choose one of the remaining substantial banks to combine with in order to even out their ability to compete in all phases of commercial banking with the resultant bank.

Mr. Littleton: If Your Honor please, I move that that be stricken because we are not considering further mergers here; we are considering this merger. It is entirely speculative.

The Court: I would like to know what question he is answering. I have been wondering about that for the last ten minutes.

Mr. Reycraft: Would you read my question, please?

The Court: You asked him whether it would lessen competition; is that right?

Mr. Reycraft: Yes, sir.

The Court: He hasn't answered yes or no yet. He has delivered the oration. He didn't start out with a yes or no.

Mr. Reycraft: I apologize, Your Honor. That is my oversight.

The Court: You had better start asking some more questions.

The Witness: I thought I answered that it would, didn't [fol. 2375] I? And I was explaining why.

By Mr. Reycraft:

Q. Would you state whether it is your opinion that it would or would not?

A. Yes. I feel that it would have a substantial adverse effect on competition.

Q. And are the reasons you have been stating the basis for that conclusion?

A. I have tried to state the basis for my conclusion, based

upon an interpretation of the data in Government's Exhibits 183 and 185 and 1987.

Q. All right.

Now, do I understand that you have completed stating your bases for that conclusion?

A. Yes.

Mr. Reycraft: All right. That's all.

Cross-examination.

By Mr. Littleton:

Q. Doctor, you have been talking a great deal about small business in Philadelphia this morning and this afternoon.

How many small businesses did you say were in Philadelphia?

A. I said that the information provided by the Department of Commerce of the City of Philadelphia indicated [fol. 2376] that there were 24,000 retail establishments, 5,000 wholesale establishments, 13,000 service establishments, and 42 manufacturing establishments.

I said that since retailing is primarily a small-business industry and also is wholesaling, that the conclusion one would draw is that the great majority of businesses in this area are small.

In addition, I have again some quotations from the Third Federal Reserve District as to the nature of business in this area, and they draw the general conclusion that the overwhelming number of businesses in the area are small.

Q. And any one of those businesses which wanted to borrow, we will say, up to $25,000, how many choices would it have in commercial banks at the present time in Philadelphia?

A. Would you read that?

(The pending question was repeated by the reporter.)

The Witness: I will get my table.

It is my opinion that these businesses would have, of the size that you suggest, 15.

By Mr. Littleton:

Q. 15?

A. Yes, sir.

Q. Is that enough?

[fol. 2377] A. Sir?

Q. Is that enough choices for a business of this size to have?

A. It depends from whose point of view you are looking, Mr. Littleton. It is my opinion that a small businessman would be able to get more favorable terms, would be able to get money on more favorable opportune terms, the larger the number of alternatives that he had available to him.

It is also my opinion that although he does have the 14 or the 15, for all practical purposes most small businesses of the size that you suggest tend to do business with a particular local bank. They are quite inflexible in terms of leaving one bank for another, for one——

Q. Let me ask you right there, if that is so, then if one of the banks that they go to is not the Philadelphia National or the Girard, the merger of the Philadelphia and Girard wouldn't have any effect on that small business, would it?

A. I would not agree with that statement. The reason that I would not is that the number of banking alternatives and opportunities that this small business has depends upon the number of banks who wish to vigorously serve the local area from a mobility point of view, in which this small business is located; and, therefore, I conclude that it would have a substantial effect from the point of view of the small [fol. 2378] businessman.

Q. And from your study of Philadelphia, which of the 14 banks that you had in mind who could make this loan would not want to vigorously compete in that area?

A. On the basis of my study, I do not know of the policies of the individual banks. I could not answer that question.

Q. You are here to express an opinion.

A. I expressed the opinion that there are 14 alternatives for him.

I suggest the opinion that it is not merely the 14 that is important; it is not only the number, but it is the emphasis which the individual banks place, relatively speaking, upon the business of the small business relative to large and intermediate-size businesses.

I earlier expressed an opinion that a bank, as a bank becomes very large, has the opportunity of dealing in the national market as well as the opportunity of dealing with very large business, whose business is more profitable than the business of large business in the sense that their credit rating is much better, in the sense that there is less expense in granting a loan; and in the sense that there are a much broader spectrum of activities that could be engaged in in dealing with such businesses.

Q. You are talking theory now; you don't know anything [fol. 2379] about the facts so far as the banks in Philadelphia are concerned, do you?

A. Well, Mr. Littleton, I am talking from the point of view of a financial economist who considers the whole picture and considers the effect of changes in competition, changes in monetary availability upon a specific, particular economy.

This point of view is somewhat different, perhaps, than the point of view of an individual bank. You may call it theory, and that is, I suppose, a good term for it. I think theory is most important to our economy.

Q. What proportion of the profits of the biggest banks, we will say in Philadelphia, comes from the small businesses or small loans?

A. I would not know.

Q. You don't know?

A. No, sir.

Q. What proportion of the profit of the Philadelphia National Bank comes from its small loans?

A. I do not know.

Q. Nor of the Girard?

A. I do have a figure on the Girard as to the profitability of dealing with a local market in the sense that Mr. Hoffa, the comptroller of the Girard, built up some figures on the profits they derived from business in the home-office build- [fol. 2380] ing; so I do have some figures on that indicating profit. This, however, is not——

Q. I am asking you, isn't this important? Wasn't this an important fact for you to ascertain before you came here to express an opinion?

A. I don't think so, sir.

[fol. 2381] You haven't answered my question that I

asked you sometime ago as to whether or not 14 was sufficient choices for this small businessman that you have been talking about today.

A. My answer to that question would deal in relativity.

Q. Well, let's hear it in relativity.

A. And it would say this, that the alternatives available to the small business, in order to ascertain whether they were ample, one would have to compare them with the alternatives that were available to him at a previous period, and my conclusion is that the alternatives available to him today are less than the alternatives available to him previously, and would be more if the merger were to be consummated.

Q. Doctor, we are talking about the present merger.

A. Yes, sir.

Q. We are not talking about something in the past, and I am asking you a perfectly direct question, easy to understand, whether you are dealing in relativity or not. Are 14 choices for a small businessman who wants to borrow $25,000 sufficient?

A. And I answered to you that the question of sufficiency, particularly in banking, depends upon the attitude and the [fol. 2382] willingness of banks to meet small business demands. Since small business has much greater difficulty in securing credit relative to large business, it would have lesser opportunities under a situation of a substantial reduction in banking alternatives.

Now, as to the 14 specifically, my attention is directed to the result of a merger, and it is directed to the effect of a change in the alternatives available to him at Period 1 relative to the alternatives available to him at Period 2. I don't believe that I could express an opinion as to the relative degree of availability to him of the number 14 from my study without relating it to a previous number that was available to him, which I have tried to do.

Q. Well, the previous number would be one more, wouldn't it?

A. I have tried to indicate that it isn't that simple, I have tried to indicate that it isn't merely a matter of numbers. It is a matter of the ability of the particular bank that is being eliminated. I do not believe that all mergers are bad for a community. I do not believe that

all mergers have substantial anti-competitive effects. One must examine the specific banks that are involved, and in [fol. 2383] this particular case I suggest that the elimination of this particular one results in a substantial lessening of alternatives for the small businessman. It would not necessarily be the same if a different one of these banks were to be eliminated. One would have to examine the results, make a different analysis.

Q. You just said a minute ago that you did not examine either the Philadelphia National or the Girard so far as their small loans were concerned and their loans to small business?

A. No, I did not.

Q. Isn't that so?

A. Yes, that is so.

Q. Well, then, how can you talk about this particular merger?

A. My conclusion is based upon an observation as to the ability of these particular banks to compete in the particular market, and it is based upon an evaluation of many documents which I have examined, indicating the willingness of the banks to vigorously compete for business in the particular market, and it is based upon——

Q. Before you leave that, just tell us what those particular documents are that reflect the bank's willingness to [fol. 2384] compete in this particular market.

A. Yes, sir.

Q. By number.

A. Yes, sir.

You will have to excuse me while I get these documents.

Q. Doctor, maybe I can help you.

A. Yes, sir.

Q. Look at G-181, please.

A. Do you want me to put aside my documents and use yours?

Q. Do you have them there?

A. I have a number of them here. I am merely getting some more.

Q. Are these exhibits?

A. Yes. Let me just look, then, at the ones I presently have in front of me, and I have several others in this particular——

You will have to forgive me, but dealing with this tremendous problem I had to get all these existing figures.

The first document I would like to take a look at is GX245.

Q. What is the number of that in this proceeding?

[fol. 2385] A. GX245.

By the Court:

Q. Which translated into the present case means what?

A. This, as I understand, is Government's Exhibit 245.

The Court: Is it going to take you a little while, Doctor? If it is, I am going to recess.

The Witness: Well, I can go through these documents, and then I can go through the others after recess, if you would like. I have about five here that I could take a look at right now.

Mr. Reycraft: The document referred to is a two-page document headed "Major Task Force, Savings Accounts," and we will give it Government's Exhibit No. 189. The number 245 was the one we used for informal identification.

(Two-page document headed "Merger Task Force, Savings Accounts" was marked Exhibit G-189 for identification.)

By Mr. Littleton:

Q. We are talking about commercial loans, aren't we, Doctor?

A. All right.

Q. I was talking about borrowers who wanted to borrow up to $25,000.

[fols. 2386-2392] A. All right, sir. Then we will take GX 237 and 237-1.

The Court: I suggest, Doctor, that we get all the documents that you had in mind in shape and we will continue tomorrow morning at 10:00 o'clock.

(Recess taken at 3:50 P. M. until Thursday, June 22, 1961, at 10:00 o'clock A. M.)

[fols. 2393-2394] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

THIRTEENTH DAY

Philadelphia, Pa., June 22, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2395] OSCAR GOODMAN, resumed.

Cross-examination (continued)

The Court: Proceed, Mr. Littleton.

By Mr. Littleton:

Q. Dr. Goodman, as we adjourned yesterday I had been endeavoring to get you to tell me whether the reduction by one man in the Philadelphia area would have this adverse effect on the small or intermediate sized business borrower to which you had referred in your opinion. You had given me figures for Philadelphia. You have selected the four-county area, Philadelphia, Bucks, Montgomery, and Delaware Counties. May I ask you, how many choices of banks would a small business borrower, who wanted to borrow, say, up to a hundred thousand dollars, have in the four-county area?

A. I have to get my figures. I have a table here of the number of banks in the four-county area. The figures that I put out here were in response to your last question indicating competition, but on this question I will have to get some different figures.

Q. I don't hear what you say.

A. I say the figures I put out here were in answer to what I thought was your last question, but the figures on the terms of the number of banks, I will have to get a different table.

[fol. 2396] Q. Would you agree with me that it is 28?

A. I have put in an exhibit yesterday indicating the number of banks in the four-county area by county and showing the sizes of each of the banks in the four-county area.

Mr. Reycraft: Mr. Littleton has agreed I can show you this table, if that is any help to you (handing to the witness).

The Witness: In the four-county area in 1960 there were 42 possible banking alternatives.

By Mr. Littleton:

Q. 42 possible what?

A. Banking alternatives, if one measures these in terms of those banks with home offices in the four-county area.

Q. How many, then, could lend to a businessman up to a hundred thousand dollars which, as I understand it, applies to a small or intermediate businessman that you are talking about?

A. How many of them could lend?

Q. How many choices would he have?

A. Well, when you speak of how many choices a businessman would have, we typically discover that the small businessman of this size is restricted in mobility to his immediate area, which would mean, in essence, that a businessman [fol. 2397] in the immediate area of a city in Bucks County or Montgomery County would be restricted, most of the smaller businesses would be restricted, to the number of banking alternatives in his immediate geographic area. As the business gets substantially larger, it might be possible to call upon resources by moving out of its area without affecting too seriously its reception at the other bank.

Q. Can you tell me before we go any further how many banks in the four-county area have a lending limit?

A. How many banks in the four-county area have a lending limit of being able to provide $100,000?

Q. $100,000.

A. I have a table showing loan limits of commercial banks with head offices in the four-county area. There are 11 banks with home offices in Philadelphia who could provide a loan of more than $100,000.

Q. Are you right in that? You are talking about home offices. I am talking about banks. I don't mean banking offices. First Camden National, for instance. I assume you didn't include that?

A. No, I didn't include that. This would go back to my original statement, that it is quite—it is most—in most instances a smaller business is restricted to a bank in its most immediate area, but businesses in the Camden area [fol. 2398] could get theoretically up to a loan limit of the Camden bank and that would be more than a hundred thousand dollars.

By the Court:

Q. Do I understand, then, that it is logical to conclude from your present statement that the merger in Philadelphia will have absolutely no effect on any business in the other three counties?

A. No, it is not.

The Court: All right, go ahead.

By Mr. Littleton:

Q. Will you look at Exhibit G-81.

The Witness: I said it is not. It is not logical to make that assumption.

The Court: You answered my question. I told Mr. Littleton to proceed.

By Mr. Littleton:

Q. Will you look at Exhibit G-81.

A. Yes.

Q. This was produced by the Department of Justice, and it is headed "Number of Commercial and Industrial Loans of Philadelphia National Bank and Girard in Philadelphia, Bucks, Montgomery, and Delaware Counties as of October 5, 1955." Will you tell me what is the number of loans up [fol. 2399] to $50,000 in the four-county area.

A. On this exhibit the number of loans in the four-county area for what category?

Q. Customers for loans up to $50,000 in the four-county area.

A. This doesn't show customers. This shows the number of loans granted, according to this table, as of October 5, and it indicates that in the Philadelphia——

Q. You mean you don't know whether this represents the same number of customers?

A. Well, by a customer, I would assume that a customer is one who might at any one time take his trade to a particular place. However, at any one instant of time not all the customers are borrowing or buying from a particular location; so these would indicate those who are trading, who had received funds as of that time.

Q. In other words, you are restricting it, then, to the number of loans up to $50,000? Is that what you are doing?

A. I am not doing it. I am just not quite sure what you were asking me a question of.

Q. How many were there in the Philadelphia National Bank from the four-county area?

A. There were 2670 listed in this table who had borrowed [fol. 2400] from $1 to $50,000.

Q. And how many from outside the four-county area?

A. There were 1000 from outside of the four-county area.

Q. 1032?

A. 1032.

Q. A total of 3700?

A. 3700 for a total.

Q. So there must have been a little less than half of the small businessmen, or as you call them, intermediate sized businessmen, from outside the four-county area who were borrowing from Philadelphia National Bank; is that correct?

A. Not necessarily. These are the number of loans that were made in that size category, and it is possible that a number of these refer to loans, participation loans, to correspondent banks. The Philadelphia National Bank is the largest bank correspondent in this area, I believe, and it would therefore have a substantial number of correspondent

banks to whom it might make overlying loans. I don't know how many of these represent overlying loans.

Q. Didn't you look it up? Didn't you study it? In this study you made of the Philadelphia situation in general and this merger in particular, didn't you look that up?

A. This particular table——

Q. Did you or didn't you?

[fol. 2401] A. I looked into the relative size of the correspondent bank business of the Philadelphia National Bank relative to the total correspondent bank business done in this area.

Q. How many of these 3702 loans of under $50,000, of loans of the types that you are suggesting now, participating?

A. I don't know.

Q. Would you give me the figures for loans up to a hundred thousand dollars. I am not saying between 50 and a hundred. I am saying up to a hundred thousand dollars.

A. Up to a hundred thousand, there were 3000—2970—in the four-county area, and there were 1260 outside, for a total of 4230.

Q. So that there are about a third that came from outside the four-county area, or a little more?

A. Yes, a quarter or so, between a quarter and a third.

Q. 2970 that came from within the four-county area. Now I ask you, how many choices—I will term it choices—the people who made those loans had in this four-county area which you have selected?

A. To answer your question as to how many alternative choices a small business has, we have to first make the statement that a small business, to a substantial degree, is restricted to the immediate banking alternatives in his relatively small area.

[fol. 2402] The Court: We will assume from here in, Doctor. That is the fourth time you said it. We will assume that is implicit in every answer from here in. I don't think you need to repeat that again.

The Witness: Well, then, I cannot answer your question, Mr. Littleton.

By Mr. Littleton:

Q. Well, if you haven't made this study, how can you say that this merger will have a substantial effect and an adverse effect on the small businessmen?

A. I base my conclusion on the amount of banking resources in a particular area and the proportions of these banking resources which are controlled by any one unit, and the relative activity of each of these units in the area; and then to come to a conclusion as to the effect of the merger, I examined the effect on the total picture of the disappearance of any one of these units. Every one unit is not equal. The Girard is one of the most important units in the area.

Q. Which area are you talking about?

A. In the four-county area. So also is the PNB. The disappearance of one of these, one I believe which controls approximately 20 per cent of all banking resources in the area, the other which controls approximately 17 per cent [fol. 2403] of all banking resources in the area, will materially affect the relative ability of a small business to secure funds, inasmuch as the disappearance of a very powerful, vigorous competitor, with the substantial resources of one of these banks, would affect him more substantially than the disappearance of another.

Q. If today, June 22, 1961, a small or an intermediate sized businessman wanted to borrow a hundred thousand dollars, he could go to any one of 28 banks in the area which you have selected, the four-county area, isn't that so?

A. I must answer——

Q. Isn't that so?

A. No, I cannot say yes to that answer.

Q. Why can't you?

A. I can't say yes to that answer, because most small businessmen are restricted to their immediate area, and they, in essence, are immobile. They could not, once having been turned down, or even not necessarily being turned down, they would find a relatively—they wouldn't find the same reception if they moved very far away from their home area.

Q. Well, let's assume somebody up in Yardley—do you know where Yardley is?

A. Yardley, Pennsylvania. I have a map, but I don't [fol. 2404] know offhand.

Q. That is in Bucks County. Suppose a small businessman up there were turned down by a bank in Yardley, Pennsylvania, what alternate choices would he have?

A. I would have to examine how many individual decision units are available in the immediate Yardley area and consider what kinds of banks these are. Banks vary in their receptions to loan requests.

[fol. 2405] Q. If you haven't made such a study, how can you give this opinion that such a small businessman would be disadvantageously affected?

A. My opinion is directed to the effect in a four-county area and it is based upon the disappearance of one of the primary competitors in the area and the consolidation of this competitor's resources with one of its foremost competitors.

Q. Do you know anything about Trenton, New Jersey?

A. Sir?

Q. Do you know anything about Trenton, New Jersey?

A. I know——

Q. Do you know anything about the banks in Trenton, New Jersey?

A. No, I don't.

Q. Do you know how much banking is done by businessmen in the Yardley area in Trenton, New Jersey?

A. No. I do not.

Q. Would that have any bearing at all here on your opinion?

A. The bearing that that would have ——

Q. Would it have any bearing on it?

A. In terms of my analysis, the answer is no.

Q. Yesterday you told me the number of choices which a small businessman wanting up to $50,000 in loans would have within the Philadelphia County area. I am not talking [fol. 2406] about the four-county area now.

I understood that you have said 15. Is that correct?

A. Yes. I said 15, I believe.

Q. And up to $100,000, how many choices would he have?

A. Let me look at the loan——

Q. Obviously, it is the same number, 15, unless you want to look it up and check me.

A. Well, go ahead. I will——

Q. Now, today, not ten years ago and not ten years from now, but today, June 22, 1961, that man has 15 choices where he can go to get a loan for $100,000?

A. My figures don't indicate that.

Q. I beg your pardon?

A. My figures do not indicate 15.

Q. What do they indicate. My figures included the First Camden National that you haven't included. I think that is the difference.

A. Well, if you include the First Camden National, that's another one. I have 14 banks listed here.

Q. Did you include Brown Brothers?

A. No. I did not include Brown Brothers. For the small businessman I do not include Brown Brothers.

Q. Don't you think Brown Brothers would be interested [fol. 2407] in a loan of $100,000 to a businessman?

A. If they didn't have to do much to get it, they would; but Brown Brothers is primarily a bank which deals with very, very large businesses and a substantial amount of foreign business and does a substantial amount of security business.

Q. Do you know whether Brown Brothers would be interested in lending a small businessman in Philadelphia $100,000?

Do you know, is my question.

A. No.

Q. You talked to Brown Brothers, didn't you?

A. Sir?

Q. They were one of the few people that you talked to, but you talked to them?

A. I did talk to them for one purpose and that was to ascertain if they would tell me the total amount of business that they have done or that they do in this area in total.

What I was interested in was what is the relative impact of Brown Brothers in the Philadelphia market.

Q. But you see, Doctor, you have given an opinion here that this proposed merger would have a substantial adverse effect on the small or intermediate-sized businessman.

A. Yes.

Q. I am wondering, when you talked to Brown Brothers,

whether you asked Brown Brothers whether or not they would be interested in making a loan up to $100,000 to a [fol. 2408] small or intermediate-sized businessman.

A. I did not, the reason being I was interested in my immediate conversation with this one aspect of the information that he would make available to me. He did not.

Q. Aren't you interested in the number of choices that a small or intermediate-sized businessman would have in Philadelphia?

A. Yes, I am.

Q. And if you add Brown Brothers I understand the number would be 15 as of this morning, as you and I are sitting here?

A. Yes.

Q. Now, if tomorrow there were 14 choices, to what extent would that small businessman be disadvantaged?

A. It would depend upon which of the 15 were eliminated from the market and the relative impact of that one which was eliminated from the market.

If it were one that had 10 to 20 per cent of the total banking resources in the area and the total banking business in the area, it would be much more harmful to the small businessman than if it were a different type of bank.

Q. What difference does that make to a businessman who wants $100,000?

A. It makes a difference, sir, in the ability of the bank [fol. 2409] and the willingness of the bank to actively compete for his business and to actively compete with other banks in the area for his business.

Q. And who isn't competing in this suppositious case that you and I are talking about, the Girard Trust Company?

A. The ability to compete would reflect individual bank's resources and assets and impact in an area. The larger, vigorously competing bank who wished to deal with small business (and my study indicates that the Girard is interested in dealing with small business and smaller types of loans, and very much so) the disappearance of such a bank which does business over a wide part of the area would be much, much more important and serious to a potential borrower than the disappearance of perhaps one of the other banks.

Q. Well, Doctor, didn't you tell us yesterday that small banks are more favorably inclined to smaller businesses than large banks?

A. I did so in explaining that the disappearance of the small banks was concomitant with the larger banks taking up these banks by merger and setting in their place a branch-banking system; and I suggested that the importance of this to me was that a branch-banking system would not be ordinarily—it would depend upon the individual bank, of course, but we typically find in our studies that the branch-banking system, with the relative limited [fol. 2410] authority of a branch manager in an area, is not as free, is not as able to adjust, or is not as interested in the business of a particular local area, a particular geographic area, that the unit bank was.

So, the implications of this were to me that it was extremely important to see that that bank which was able to, in essence, destroy the small-banking system of an area would not, in effect, aggravate this situation by once having done so remove itself as an effective competitor.

That was the significance of my analysis of the disappearance of the small banks.

Q. You are not suggesting, Doctor, are you, that the merger here sought would destroy small banks, would you?

A. I am suggesting that the banks were destroyed. The small banks were wiped out, in essence.

Q. Oh, you mean today the small businessman isn't being served properly by the banks in Philadelphia?

A. No. I have some figures indicating that the branches of the banks are in the range of small banks. In other words, they seem to range in the area of—well, there are a number around $10,000,000, $15,000,000. Some are $20,000,000, some are a little less. These are levels of assets at which small banks could live and could compete.

Now, both of the banks have units—have branches of [fol. 2411] this size. Small business presently in a particular area could have access to two branches of competing banks and would be able to, in essence, use the competitive advantage to perhaps better his position in getting a loan.

With the disappearance of the one effective branch sys-

tem and the effective large bank, I suggest that this materially affects his ability to get funds.

Q. Which would be more disadvantageous, in your opinion, to the small businessman—the disappearance of the Girard Trust Company, as you call it, the disappearance by this merger; or if, we will say, the Citizens' and Southern Bank of Philadelphia were merged, which is a small bank (I will tell you, in case you don't know that)?

A. Well, for the four-county area——

Q. For the what?

A. For the four-county area——

Q. No. I am confining myself right now to Philadelphia.

A. For the Philadelphia County area, for the Philadelphia geographic banking area, the disappearance of the Girard is much more serious.

Q. Do you remember saying yesterday with reference to a certain memorandum:

> "The implication that I draw from this is that small banks are more favorably inclined to smaller [fol. 2412] businesses and in an area where the number of small banks disappears or is done away with rapidly, the availability of bank credits for small business is likely to suffer substantially."

You said that, did you not?

A. Well, I will assume you are reading from the record.

Q. Do you agree with that this morning?

A. Let's have it back again.

Q. I will read it again:

> "The implication that I draw from this is that small banks are more favorably inclined to smaller businesses and in an area where the number of small banks disappears or is done away with rapidly, the availability of bank credits for small business is likely to suffer substantially."

Do you agree with that this morning?

A. Yes. I do agree with that.

Q. Then you think that if a small bank were merged that would be more disadvantageous to the small businessman wanting to borrow $100,000 than if the Girard Trust Company were merged; is that the case?

A. No, this is not so. I did not, in essence, go on. I made that statement and did not go on to point out, as I think we have this morning, that we now consider what [fol. 2413] happens after the small bank has been done away with.

Q. What small bank?

A. In this particular——

Q. What small bank?

A. I believe you just mentioned a quote. You were indicating that I felt that the disappearance of smaller banks from an area might or would have an adverse effect on small business.

Now, from that I may go on to say it could; and we now examine what did, in fact, happen.

In this particular area what happened was that the large banks bought up the small banks, paying them substantial premiums, and set up a profitable and active competing branch system; and the branch systems, to a substantial degree, attempted to substitute for the competition of the previous unit banks. In some areas the branches probably were able to bring in additional competition; in other areas, less competition.

The effect, however, was that instead of having a number of competing small banks we now had a few competing large branch-bank systems.

Q. All right.

Shall we come down to today? I am trying to get on down to June 22, 1961.

[fol. 2414] A. Yes, sir.

Q. Are the small businessmen in Philadelphia who want loans of up to $100,000 being served properly by the banks in Philadelphia at the present time, in your opinion, from the study which you have made?

A. My study was not directed——

Q. Are they?

A. My study, sir—I could not answer that question.

The Court: That is the answer.

Next question.

By Mr. Littleton:

Q. Then you don't know the answer to my question?

A. No.

Q. No.

Then you can't tell what the effect of the merger of the Girard Trust Company with the Philadelphia National Bank would have on such small businesses, can you?

A. Yes. I can.

Q. What, as an economist or as an expert in banking?

A. As one who has studied the marketing effect of the disappearance of banks in this area, bringing to it whatever all the education and experience that I have had.

Q. Don't you see, Doctor, that before you can get into that you will have to tell us, you would have to know whether [fol. 2415] the small businessmen are being properly served today. We are not talking about ten years ago; we are talking about this morning.

A. No. I do not have to know that. My assignment was to examine the relative change from whatever condition existed at a moment in time, the relative changes that would result if this present competitive balance were to be changed.

Q. Well, let's get back to my original question and ask you if the number of banks available to a small businessman who wants a loan of up to $100,000 is tomorrow 14 instead of 15 in the Philadelphia area, in what possible way does that disadvantage the small businessman?

A. It disadvantages the small businessman only after we examine the relative results of whatever particular bank disappears.

In this particular case he no longer can call on two banks, one of whom has over 20 per cent of the resources of the area, the other of which has somewhere between 15 and 20 per cent of the resources of the area, as alternative sources of bank services, including loans; and he can not rely upon their natural inclination to secure his business by perhaps changing their credit requirements or perhaps changing their compensating balance requirement, or perhaps offering him additional services.

[fol. 2416] In other words, he can not rely upon their eagerness, their competitive eagerness, to get his business.

Q. On the eagerness of how many other banks can he rely?

A. My point of view is——

Q. No. On the eagerness of how many other banks can he rely?

A. I have said before that I can not answer that question because for any one business we would have to find out where he is located, his relative size, his relative ability to command banking resources.

Q. Isn't the real reason that you can't answer that you don't know anything about these banks?

A. About the——

Q. About these banks in Philadelphia.

A. No, that is not the reason. I believe I know quite a bit about them.

Q. Do you know anything about their eagerness to serve small business?

A. Yes. They—I have seen statements in the deposition of Mr. Brown indicating that they were quite eager, I believe.

Q. Yes.

A. Sir?

Q. I say yes.

[fol. 2417] Do you know anything about their advertising program?

A. Yes. I have seen a statement indicating that they think they will save $130,000 in advertising expenses as a result of this merger.

Q. I am talking about all the banks in Philadelphia. We are talking about all of them now. We are talking about the alternate choices that a businessman has.

A. I thought you were talking about the two banks, but if you wish to talk about all of them, I have seen references to the advertising expenditures of the two banks and I have observed advertisements of the other banks here in the city.

I have seen advertisements of the small Citizens' and Southern Bank on cabs.

Q. Do you know anything about the growth of the smaller banks in this city in the last ten years?

A. Yes. I have some figures.

Q. It has been quite remarkable, hasn't it?

A. From my point of view, not necessarily.

Q. As an economist?

A. As an economist.

Q. As an economist?

A. As an economist, it is not necessarily spectacular.

Q. Now, what I want to know is the specific way in which this small businessman who wants a loan of $100,000 will be [fol. 2418] disadvantaged.

A. I am trying to indicate that he is disadvantaged by the elimination of a substantial unit which has between 15 and 20 per cent of the total banking resources in the area and is presently and has indicated by its actions and by its statements that it is most interested in actively competing with its existing competition in order to secure the busines of businessmen in the area.

Q. In other words, he couldn't shop around for better terms at 15; he could only shop around at 14 banks; is that correct?

A. It is not a matter of numbers. It is a matter of relative ability of the individual banks.

Q. Do you think to the businessman it is a matter of numbers?

A. To the businessman, the reception that he expects to find at the bank is most important. Size is not the most important thing that businessmen look for in banks.

The Court: Read the question back.

Mr. Littleton: I beg your pardon?

The Court: I directed the stenographer to read the question back.

(The pending question was repeated by the reporter as follows:

[fol. 2419] "Q. Do you think to the businessman it is a matter of numbers?")

The Witness: No.

By Mr. Littleton:

Q. Do you think he is interested in the size of the bank when he goes to make a loan for himself?

A. He is primarily interested in their relative ability, willingness and desire to seek his business.

Q. That is right.

Do you know anything about the relative desire and ability

to seek his business which is shown by the 15 or 14 banks if this merger is approved in Philadelphia?

A. The——

Q. You can answer that yes or no, Doctor.

A. For my purposes, yes.

Q. What are your purposes?

A. To establish the effect of the elimination of one specific and specified competitor from that area.

Q. Is your concept, then, of the businessman going to each of these 15 banks seeing which one will give him the best terms?

A. No. A businessman—there are a given amount of banking resources in an area and a businessman, in seeking a loan or seeking bank services, must call upon these resources.

The growth in these resources in this area has [fol. 2420] been primarily from the ability of the banks to plow back earnings and the growth in unit size has been (and to a very significant degree) based upon the ability of the banks to merge with smaller banks.

In other words, there has not been much growth in banking resources as a result of either the bringing in of new capital into banking, outside capital which is not in banking and bringing it into banking, or as a result of a rigorous program of plowing back earnings in order to build up banking resources in an area.

Therefore, I conclude that relatively speaking banking resources in this area are limited, and when the control of the available banking resources which is available to a businessman is substantially reduced, his alternatives, his ability to secure loan funds is materially affected.

Q. How about his alternatives?

A. His alternatives are materially affected.

Q. All you know, all you are talking about is relative size now, isn't it, Doctor?

A. No, sir. I am talking about the control of banking resources, banking capital, banking facilities, banking—physical, geographical locations.

I am talking about all of the things that a businessman can call upon in getting bank services.

[fol. 2421] Q. Do you really think that a businessman

ink about all of those things when he goes into a bank
make a loan?

A. A businessman going into a bank to make a loan is
ter ed in only getting what he thinks he needs.

Q. t's right; and if he can't get it there he goes some
ac e, doesn't he?

A. In many cases——

Q And if he doesn't get it there he goes some place
se, esn't he?

A In many cases, yes; in other cases, no.

Q. And if he doesn't get it at the second place he can
o the third, can't he?

A. obably not, for the small businessman. He finds
na he gets no reception to speak of after he has been
urn down by several banks.

fo [2423] Q. How many choices do you think he needs?

A. Again I must say that number is not a significant
act . Number is a rough indicator, and one *that* has to
xamine the individual banking alternatives that he has.

Q. That is what I say. What you are saying is that size
th significant thing?

A No, it is the ability, the willingness, the desire of
e individual units to compete for business.

Q. And about that you know nothing at all, do you,
ctor?

A. I have tried to indicate that I believe I know suffi-
nt to base my conclusions.

Q. Tell us about one, for instance. Tell us about the
dustrial Trust Company. Did you make any study of
at?

A My study of the Industrial Trust Company was related
its command of banking resources in the particular
ographic area as an indicator of its ability to compete
that geographic area.

Q. How about this desire or this eagerness to serve?

A. The desire to serve or the eagerness to compete is
stantially limited by the resources which a bank can
ng to bear upon the market.

Q. To a man who wants a hundred thousand dollars?

[2423] A. Yes, to a man that wants a hundred thou-
d dollars. To a man that wants a hundred thousand
lars there are two ways in which his contact and his

reception at a bank will be felt. One is the going out and actively seeking such business, and the other one is the bank actively seeking him out.

Q. Of course, I am addressing myself to your opinion expressed here yesterday that the reduction by one bank will have a substantially adverse effect on the small or intermediate sized business borrower.

A. I again say that the one bank depends upon which bank is to be eliminated and its relative effect on the banking market.

Q. And you say the elimination of a big bank will have a greater effect on the small businessman than the elimination of a small bank?

A. No, I say it depends upon the bank. If it is big, it depends upon the willingness, the desire, as well as the capacity of that big bank to serve small business. Some big banks simply do not wish to have accounts of perhaps less than $10,000.

Q. And as to that willingness or desire to serve small business you know nothing with reference to the particu- [fol. 2424] lar banks in Philadelphia, do you?

A. Yes, I do. I have figures as to the number of loans that they make to small business: I have figures as to the interest charges. I have figures as to their branching. I have figures as to the statements as to the areas in which these branches compete. I have examined figures as to the relative sizes of some of these smaller units which have replaced individual units, and on this I have based my conclusion.

Q. Would you look at G-181, Doctor.

A. Yes, sir.

Q. With reference to the Philadelphia National Bank.

A. Yes.

Q. What percentage of all their loans are within the $100,000 range, in the $100,000 range?

A. Are in the $100,000 range? In the four-county area or in total?

Q. Give us the four-county area and then anything else you want. 90 per cent of their loans are within the $100,000 range, aren't they?

A. I will accept your calculation, certainly.

Q. Have you made a similar study for each of the other banks in Philadelphia?

[fol. 2425] A. No.

Q. How can you then express the opinion as to the effect of this merger on the small businessman when you don't know what the eagerness or ability or intention of the other banks in Philadelphia is vis-a-vis small businessmen's loans within the $100,000 limit?

A. I know of their ability, sir. I have studied their ability as measured in their command of the banking resources in the area as compared to the command on the banking resources of the two banks in question.

Q. Yesterday, Doctor, you talked to us on the basis of this report of the Committee on Banking and Currency of the Federal Reserve System, entitled "Financing Small Business." Do you have it there with you?

A. Yes.

Q. Would you look at Page 426.

Mr. Littleton: Will you mark that D-3.

(Document headed "Financing Small Business, Table 10—Business Loans of Member Banks, October 1955 and October 1957, By Size of Bank and Relative Size of Borrower" was marked Exhibit D-3 for identification.)

Q. Doctor, on Page 426 of "Financing Small Business" [fol. 2426] there appears a table entitled "Table 10—Business Loans of Member Banks, October 1955 and October 1957 by Size of Bank and Relative Size of Borrower"; is that correct?

A. Yes.

Q. I have had an autostat copy of that table marked D-3.

A. Yes.

Q. The period October 1955 and October 1957, did I understand you to say that was the period of rather tight money?

A. I said 1957 would be considered a period of relatively tight money, yes.

Q. Would you look at the latter part of that Table 10 on D-3.

A. Yes.

Q. They talk about the small borrower and the number of loans made to small borrowers by banks of various sizes.

A. Yes.

Q. In the period October, 1955, and October 1957, banks under $20 million made how many loans? Well, first in 1955, how many loans did banks under $20 million make to small business—number of loans, I am talking about [fol. 2427] —in thousands.

A. 302,000.

Q. And in 1957?

A. 285,000.

Q. So in that period there was a percentage reduction in the number of loans which small banks made to small business of 5.7; isn't that correct?

A. Yes.

Q. In the same period what did banks in the area of $20 million to $100 million in assets do?

A. 151,000 in number and 162,000 in number.

Q. That is a percentage increase of what?

A. Of 8 per cent.

Q. And what did banks of the size of $100 million and over do in so far as number of loans to smaller businesses concern in that period?

A. 232,000 in number in 1955, 267,000 in number in 1957. The percentage is 15 per cent plus.

Q. And I assume that you agree with the statement made on Page 372 of the same "Financing Small Business" report? I direct your attention to that. Do you have it?

A. Yes.

Q. I assume you agree with the statement there made [fol. 2428] in the third full paragraph:

> "Loan expansion between 1955 and 1957 was greater at large than at smaller banks, and large banks generally expanded their loans to small and medium sized businesses more than smaller banks. Within most size classes of banks, loan expansion was greater for large than for smaller businesses. In general, growth in total business loans and in loans to smaller businesses was greatest in geographic areas experiencing the greatest economic expansion.
>
> "Smaller businesses paid higher interest rates on their bank loans than large businesses in both 1955 and

1957, but, in the intervening period, rates charged large businesses rose much more than rates charged smalle borrowers. Businesses of a given size generally paid about the same rate on their loans, whether they borrowed from a large or a small bank."

I take it that you would agree to that statement or those statements, would you?

A. These are the observations made by the Federal Reserve System of their study.

[fol. 2429] Q. And didn't you predicate a lot of what you had to say yesterday on this very report?

A. They have made their statements about this loan survey in which they divide the categories much more intensively than the reproduction in this particular study, so if we are going to talk about the study, I would prefer to get the original source and look at the table in the original source, which is in much greater detail than this particular table, and a comment on the categories there shown I believe would be more meaningful for our purposes.

Q. When you were giving us this excerpt from this "Financing Small Business" yesterday, did you go to the original sources there?

A. Yes, I have it here, and I just picked up a table. I happen to have a table that was reproduced from here, but I fundamentally rely upon the original source. It is the same table. This particular table is in there also, but there are other tables which break down the figures to greater detail.

Q. What are these original studies? That is the material supplied by the banks in the Federal Reserve?

A. Yes.

Q. You have all of them, do you?

[fol. 2430] A. I have the report of the Federal Reserve System in 1957, published in 1958, based upon their 1957 loan survey, and comparing it to 1955.

Q. Then you don't have the original source?

A. I would consider this the primary source of information on the significance of the 1957 loan survey. The article published by the Federal Reserve reporting to the public and to all interested parties their results of the 1957 loan survey.

Q. Well, do you know whether this has ever been broken down in greater detail?

A. Yes, it is broken down in the 1957 loan survey.

Q. I am talking now about the Chart D-3, Table 10.

A. Which one?

Q. Table 10.

A. Table 10 on Page 426?

Q. Yes.

A. Yes, this is broken down in greater detail.

Q. Would you produce it?

A. Yes.

The Court: Let us take our mid morning break at this time.

[fol. 2431] (A 10-minute recess was taken at 11:00 o'clock A.M.)

By Mr. Littleton:

Q. Doctor, you said you thought you should go to the original sources in discussing this Table 10, marked D-3, and while you don't have the original sources, you do have something, I understand, called "Members Banks Lending to Small Business."

A. I consider this the original source.

Q. You consider that the original source?

A. Of this information, yes.

Mr. Littleton: Could we have that marked? Shall I mark it, Mr. Reycraft?

Mr. Reycraft: Will you mark for identification as Government's Exhibit 190 a document headed "Member Bank Lending to Small Business, 1955 to 1957"—Page No. 393 appears at the bottom—reprinted from Federal Reserve Bulletin for April, 1958; and I also hand you another exhibit, Doctor, which I think I should mark.

Will you mark as Government's Exhibit 191 a three-page document headed "Loan Limits of Commercial Banks with Head Offices in Philadelphia, Montgomery, Delaware, and Bucks Counties, Pennsylvania, as of December 31, 1960.

[fol. 2432] (Document headed "Member Bank Lending to Small Business, 1955 to 1957" was marked Exhibit G-190 for identification.)

(Document headed "Loan Limits of Commercial Banks With Head Offices in Philadelphia, Montgomery, Delaware, and Bucks Counties, Pennsylvania, as of December 31, 1960," was marked Exhibit G-191 for identification.)

[fol. 2433] By Mr. Littleton:

Q. Doctor, do I understand that your thought is that G-190, which you consider as an original source, contradicts or casts some doubt on the figures you gave us from Table 10 which has been marked D-3?

A. I said in order to sufficiently understand the information one should look at the greatest detail with which it is made available.

Q. You don't quarrel with the figures, though, that are in Table 10, D-3?

A. No, no.

Q. Will you look at page 404 of G-190, the original source to which you referred?

A. Let me mark this so we know what we have.

Yes, sir, Table 4?

Q. Table 8 on page 404.

A. Yes.

Q. Would you tell us what that table is entitled?

A. "Relative Size of Business Borrowers at Member Banks, by Size of Bank."

Q. And as of what time?

A. Well, it is probably as of the fall of 1957; October 16, 1957.

Q. Looking at the last grouping in that table, will you tell [fol. 2434] us what the percentage increase is of the amount loaned to small borrowers by banks under $10,000,000 in the period covered?

A. The dollar amount——

Q. The percentage increase in the dollar amount.

A. The percentage increase in the dollar amount to small borrowers by banks with a size of less than $10,000,000 was 5 per cent.

Q. And by banks with $10,000,000 to $100,000,000, what was the percentage increase?

A. 11 per cent.

Q. And of banks $100,000,000 to $1,000,000,000, what was the percentage increase?

A. 10 per cent.

Q. And banks over $1,000,000,000, what was the percentage increase?

A. 13½ per cent.

Q. So that the larger banks increased their loans to small business by a considerably greater percentage or ratio than did the banks under $10,000,000; is that correct? In that period?

A. Yes, it is correct.

Q. Will you give us the same percentage or similar percentage increases to medium-sized borrowers, first by banks [fol. 2435] under $10,000,000?

A. The percentage reflecting the total dollar increase made available to medium-sized borrowers by banks under $10,000,000 in total size was 23 per cent; by banks $10,000,000 to $100,000,000, 26 per cent; $100,000,000 to $1,000,000,000, 25½ per cent; $1,000,000,000 and over, 32 per cent.

Q. I ask you, as a result of reading those figures and the figures in D-3 as to the number of loans, the figures you have just read to the amount of loans, do times of tight money create a greater disadvantage to small business in the small banks or in the large banks?

A. In order to answer that I think we should take a look at other tables. In other words, we will break down the sizes of business in different categories and we should examine the total amount of lending power in total that each of the banks has, vis-a-vis the other. We should examine the interest rates at which the loans are granted, and we should examine the relative ability of businesses of different sizes to get increases in the loans granted.

Q. Have you any conclusion in your own mind as to the answer to my question?

Do times of tight money create greater difficulties for small businesses in small banks or in large banks with regard to their ability to get loans?

[fol. 2436] A. I would say that smaller banks are more receptive than are larger banks, all other things being equal.

Q. Despite the figures on D-3 and the figures in G-190, Table 8?

A. My conclusion must be based upon all the information which is in this tabulation and my conclusion, after basing

it on all the information of the loan surveys, is as I have stated it.

Q. What other information are you referring to?

A. Well, for one thing, let me check my figures here. We are now talking about small banks versus large banks, and not by size of borrower?

Q. We are talking about small borrowers.

A. Small borrowers at small banks and large banks?

Q. Yes.

A. One basis of my conclusion is that the small banks typically have more loanable funds than do large banks relative to their total capacity to lend to whomever they typically lend to in periods of tight credit.

In other words, smaller banks tend to be less efficient in committing all of their funds to the loan market than do large banks.

Q. What is your authority for this statement?

A. My authority for this is the relative capital-to-loan— [fol. 2437] capital-to-total-loan ratio.

Q. Where did you get this?

A. Well, I have got the figures here. I have a table some place indicating the comparative capital ratios of small, medium, and large banks by various sizes. Perhaps I can find the information in the Federal Reserve Bulletin.

Q. Doctor, before you do that, would you look at Table 10 again, D-3, in view of your statement a few moments ago?

A. Table 10?

Q. Yes.

A. Yes, sir.

Q. That is at page 426.

A. 405? This interest rates by member-bank loans to business?

Q. No, no. D-3, which is the Autostat——

A. I don't have it.

Q. Page 426 of your "Financing Small Business."

Mr. Littleton: This is the one, if Your Honor please, headed "Business loans member banks, October 1955 and October 1957, by size of bank and relative size of borrower."

The Court: D-3.

The Witness: Yes.

By Mr. Littleton:

Q. Will you tell us what the percentage increase of loans [fol. 2438] (in number, I am talking about now, so it will be the last category down there) by banks under $20,000,000 to large borrowers was in that period?

A. I am sorry, Mr. Littleton. Would you give me that again?

Q. Certainly.

You will find it in the last category on Table 10, D-3, and I ask you what the percentage change, by number of loans in the period 1955 to 1957, by banks under $20,000,000, to large borrowers was.

A. 18.3 per cent.

Q. In other words, banks under $20,000,000 during that period increased the number of loans to large borrowers by 18.3 per cent, while at the same time they were reducing the number of loans to small borrowers by 5.7 per cent; is that correct?

A. Yes, sir.

Q. And going up just above, where we get into amounts, during that same period banks under $20,000,000 were increasing the dollar amount of their loans to large borrowers by 17.7 per cent while they were increasing their dollar amount to small borrowers by 5.9 per cent; isn't that correct?

A. This is now the amount figure; yes.

Q. That is the amount?

[fol. 2439] A. Yes.

Q. Now as to the number of loans it is significant, and I think you will agree with that.

Will you tell us how you could make the statement you made a few minutes ago in the fact of that statistic, and I am assuming the statistic is correct because it comes from the book that you have been using.

A. No, I assume that the statistics are correct. I have no quarrel with the accuracy of the dollar figures and the percentage calculation.

Q. Do you mean to say that that doesn't show that banks under $20,000,000 increased the number of their loans to large borrowers more than they did to small borrowers by a much greater ratio?

A. Yes, it does.

Q. Do you agree with it?

A. I agree with the statistics.

Q. All right.

A. Yes.

Q. Now will you look at 389 of the green book, "Financing Small Business," the report by the Federal Reserve System, the book that you were using yesterday?

You gave considerable testimony about interest rates to small borrowers, but you didn't read us this part. [fol. 2440] It is the second full paragraph on page 389.

I want to ask you if you agree with this:

> "Most borrowers pay about the same rate of interest on their loans regardless of the size of the bank from which they borrow, as shown in table 11. The major exception is that rates on loans to small businesses are slightly higher at large than at small banks, reflecting in part relatively more lending by these banks on longer term higher interest bearing installment loans. Between 1955 and 1957 all size classes of banks raised rates less on loans to small businesses than on loans to large businesses."

Do you agree with that?

A. This is an interpretation of Table 11. My interpretation of Table 11 would be different.

The table is immediately below the paragraph. The figures are here. If you would like, I will interpret the table.

Q. And is this the interpretation that was submitted by the Federal Reserve System to the Committees on Banking and Currency and the Select Committees on Small Business in the United States Congress on April 11, 1958?

A. Yes, sir.

[fol. 2441] Q. Now, Doctor, you have said that there are local markets for banking, a national market, and an international market.

Would you tell us what your definition of a market is?

A. A market is a geographic area within which people trade.

Q. Does that have to do with banks, too?

A. Yes. Banks also trade in markets.

Q. Can we agree that the geographical location of the bank itself doesn't determine the market, does it?

A. To a substantial degree, the geographical location of a bank determines the bank's market.

Q. Does the geographical location of the borrower have anything to do with it?

A. To a substantial degree, the geographic location of a borrower determines the bank market in which he trades.

Q. Really, it is the area in which the borrower is free or able to exercise his choice, isn't it?

A. It is the market within which he does exercise his choice, which indicates the area in which he is free to exercise his choice.

Q. And you have included Bucks County as one of the four-county area which you state comprises the market of the Philadelphia National Bank and Girard Trust Company; is that correct?

[fol. 2442] A. Yes, sir.

Q. Would you say that that hypothetical borrower that we spoke about in Yardley, Pennsylvania, was in the market area of the Trenton banks?

A. Could you give me some more information about your hypothetical borrower?

Q. Yardley is right across the river from Trenton.

A. The borrower, as well as—the market depends upon that area within which the borrower typically exercises his search for banking resources. In order to define the market for a specific one of many, many borrowers in a market, we would have to examine that one specific borrower.

Q. Have you done that in defining what you have stated here to be the market area of the Philadelphia National Bank?

A. I did it for all of the borrowers, in essence, of these banks.

Q. What do you mean by "all of the borrowers, in essence"?

I am not so sure I get the implication of the "in essence."

A. My figures were compiled indicating the location, the geographic location of the borrowers from these banks; and these figures indicated that the very substantial majority of all of the borrowers from the banks in number resided within this four-county area. The four-county area com-

[fol. 2443] prises less than 10th of 1 per cent of the geographic area of the United States, so it obviously indicates that

the great majority of these people do not operate in a national market.

I then considered the situation for Pennsylvania as a whole and relatively a small percentage of them resided in Pennsylvania outside of the four-county area. I therefore concluded that for a substantial number, a substantial majority of all of the borrowers of these banks, the relative local area was the four-county area in which the bank could legally establish branches and physically then carry on their business.

Q. And is that what you meant yesterday when you said that one of the anti-competitive effects of this merger that you apprehended was that where there were now three banks which could lend to very large businesses there would now be but two?

A. The three banks which I cited which would become two lend to all ranges of businesses, and, as we have looked earlier today, we have seen that the majority of their loans are to small business; and there would then be an elimination of one of the very substantial competitors and it was my problem to ascertain the relative impact upon the market of the elimination of that one.

Mr. Littleton: Mr. Reporter, would you read my [fol. 2444] question.

And, Doctor, would you answer it?

(The question was repeated by the reporter as follows:

"Q. And is this what you meant yesterday when you said that one of the anti-competitive effects of this merger that you apprehended was that where there were now three banks which could lend to very large businesses there would now be but two?")

By Mr. Littleton:

Q. What did you mean by "very large businesses"?

A. Very large businesses would be businesses of asset size—I will speak very generally now—as we pointed out before it depends to some degree upon the mobility of the business, but I would say probably over $50,000,000 in total asset size would be—we would be getting into the range of large; and when we get over $200,000,000 we are in the range

of very large; and, of course, there are those few companies who are close to $1,000,000,000 in assets.

Q. Well, you pick either $50,000,000 or $200,000,000; I don't care which. You pick it and tell me if you really meant what you said when you stated that this merger would result in there only being two banks in competition for very large business.

[fol. 2445] A. (No response.)

Q. I am quoting you correctly, am I not, Doctor?

A. Yes. I think you are.

Q. All right. All right.

A. Yes. The words that I was using is the qualitative term of "very large," relative to the large businesses in this area who do bank locally as opposed to banking in the national market.

Actually, very large businesses have much greater mobility than small and intermediate-sized business, and many of them, too, are actively solicited by the very largest banks in the national market and do often bank outside of their geographic area.

Q. And a business of $50,000,000 in Philadelphia, does it just use Philadelphia banks, from your study and experience?

A. Well, I would say that a business that size could very easily bank outside of the area. It would be in the national market. It would be of much greater mobility and would not be restricted to the Philadelphia area.

Q. In other words, there is plenty of competition in Philadelphia for business of that sort from all over, is there not?

A. I would say for a business $50,000,000 or more there is plenty of competition from all over for their business of their big loans.

[fol. 2446] For a substantial part of their business, however, that business involving convenience banking, pay-roll accounts, money, safekeeping—this would be local, but for a substantial part of their loan requirements they could go to the national market, restricted somewhat by the fact that the lender in the national market would want deposits as well, and the fact that they must use a local bank for a substantial amount of their services is quite a retarding factor in giving them complete mobility.

Q. So that competition for business of the $50,000,000

order, location of the customer doesn't mean anything at all, does it?

A. It does for that servicing part of banking.

Q. In determining the market, I am talking about.

A. In determining the market for businesses of that size, I say that for a part of their loan requirements they can and do have access to a wider geographical market, but I say for a part.

Q. Not only have access to it; it is actively solicited, isn't it?

A. I would say that an active, competitive bank would solicit them, yes.

Q. From a wide area?

A. Yes.

[fol. 2447] Q. So that the location of the borrower of such an order doesn't have much effect on market area, does it?

A. Yes, it does, in the sense that the location of this borrower—he needs a substantial amount of banking services in his local area. He simply can't dispense with banking services because banking services are essential to his business operation.

Q. And, Doctor, he should be provided with that substantial banking service within his area, then, shouldn't he?

A. I wouldn't say he should be provided. I would say that the forces of competition should, in seeking his business, make them available.

Q. But you wouldn't say that he then should be provided with such banking service within his area?

A. (No response.)

Q. It is you who has drawn the area, not I.

A. I would say that the services in a competitive economy make themselves available wherever there is a profitable opportunity for them, so such services will become available to him in his local area if he can buy them at a profit to the person who supplies them.

Q. So that a business of the order of $50,000,000 or more should have comparable banking service available within his own geographic area, shouldn't he, Doctor?

[fol. 2448] A. For those banking services which he must utilize his local market for, such services will be available for him.

Q. Such services will be available to him?

A. In the same sense——

[fol. 2449] Q. That is as far as you will go?

A. In a competitive economy, sir, that is as far as I will go.

Q. In other words, it is your idea that in Philadelphia it doesn't make any difference what the size of the business is, a small bank would be perfectly sufficient; is that correct?

A. No, that simply is not correct.

Q. Would any bank be necessary?

A. Banks in an area tend to reflect the character, the economic characteristics of the area.

Q. They try to grow along with the business and industry, don't they, so they can serve in this way you have been talking about; isn't that correct?

A. They do. As an area develops in terms of population, in terms of economic characteristics, all of the factors in the area grow also.

Q. Being quasi public in nature, banks should strive to be able to serve the business and industry in the areas, should they not?

A. Our competitive system——

Q. Will you answer that question.

A. Yes.

Mr. Littleton: That is all, Doctor.

[fol. 2450] By Mr. Price:

Q. Doctor, you have been directing most of your attention and your comments and observations to small business, and you said that small business was more dependent on bank financing than large business. Do you know how much of the financing requirements of small businesses banks provide?

A. Yes, some studies have been made of this. One figure usually indicates that 80 per cent of the total external financing of the smaller sized businesses is provided by commercial banks.

Q. What do you mean by external total?

A. These are the funds that it gets from the external market, from financial institutions or individuals outside of its own family, so to speak—in other words, of the capital market, the capital money market.

Q. How does that compare with all companies, approximately?

A. Well, one has to measure it by size. I have a table indicating that for the larger companies having access to the capital markets, a substantial part of their funds are secured in capital instruments, such as bonds and stocks, and from financial institutions other than banks, who can deal with them in much larger units.

[fol. 2451] Q. And what do the banks provide?

A. Some of their requirements.

Q. You said 80 per cent when you were speaking about small businesses. What was the percentage when you were speaking about large?

A. I don't have one figure. I can give you some figures by types of industry, for example. If we speak of large industry, such as utilities, large corporate utilities, they raise 50 per cent of their total long-term funds——

Q. Do you have the green book in front of you?

A. Yes.

Q. The report "Financing Small Business?"

A. Yes.

Q. Will you turn to Page 23 and look at Table 3.

A. Page 23, Table 3, yes.

Q. And tell me the percentage distribution of bank loans to the total requirements for other than large corporations.

A. Just give me a minute here.

Q. The last column.

A. Table 3, the percentage distribution? Where are we?

Q. Do you find Table 3?

A. Yes, I now have it in front of me.

Q. Do you find the last column?

[fol. 2452] A. "Other?"

Q. Yes, other than large corporations.

A. This is "Sources of Funds of Large and Other Non-Financial Corporations, 1946-55." It deals with the sources of funds for corporations, and I have the other corporations other than large.

Q. I am asking you how much of their financing is due to bank loans.

A. The figure shown here is 13 per cent.

Q. How much to trade payables?

A. 25 per cent.

Q. So that the bank loans are very substantially less than trade payables in the financing of these companies, are they not?

A. Yes.

Q. And how much for mortgages and bonds?

A. For corporations of the type that are reported in this particular study, mortgages and bonds total 28 per cent.

Q. So that the bank loans are the smallest of those three categories?

A. For corporations only, which are the only companies which are studied in this table, that is so.

Q. Those are related in terms of dollars in the section [fol. 2453] that you were reading. The percentage distribution is below. Bank loans are not 13.2 per cent; they are 6.7 per cent, are they not?

A. Oh. Let me go below that. Yes. For non-financial corporations other than those defined as large, bank loans are 7 per cent, 6.7 per cent.

Q. And trade payables are how much?

A. 12.5 per cent.

Q. Bonds and mortgages?

A. 20 per cent—19 per cent.

Q. It looks like 14.5. What are you adding to that to make 20?

A. I am adding the capital stock. I beg your pardon. 14.5.

Q. According to this, the external, total, is 44.6 per cent, is it not?

A. Yes. Well, I will take your addition.

Q. Now will you turn to Table 2, on the preceding page, Page 22.

A. Yes.

Q. It relates to businesses with assets under $250,000.

A. It relates only to manufacturing corporations with assets under $250,000

Q. And in respect to them, what is the percentage of [fol. 2454] short-term bank loans?

A. 4 per cent.

Q. And other notes and accounts payable?

A. For small manufacturing corporations other notes and accounts payable in 1955 were 22 per cent in the fourth quarter.

Q. And installments on long-term debt due in one year or less from banks, how much?

A. As reported by the SEC in their quarterly report on sources of funds for small manufacturing corporations, in the fourth quarter of 1955, long-term debt due in more than one year from a bank was, I think it says 1.7 per cent.

Q. Yes, and then immediately below that, from other sources, what?

A. For small manufacturing corporations in 1955, 9.3 per cent.

Q. You don't have to read it all again, Doctor. You are still talking about the same table, aren't you?

A. Yes. I have the figures here for 1960, if you want to look at them.

Q. Will you please read the figure as shown on this table.

A. Yes.

[fol. 2455] Q. What is it?

A. 9.3 per cent.

Q. That is from sources other than banks, is it not?

A. Yes.

Q. Now will you turn to Page 21.

A. Yes.

Q. Which gives the liabilities and net worth, all and small non-financial corporations.

A. Yes.

Q. You made this distinction between various classes of corporations. What does this table show?

A. This one is 1954.

Q. What does this table show as to the bank credit?

A. It shows that for such corporations the banks supplied —I don't see a bank category here.

Q. I can't hear you.

A. On Table 1 I don't see a specific category headed "Banks."

Q. Do you find one that might include that?

A. Well, let me look at it more carefully, then.

Q. I suggest you look at the second item, which is "Notes Payable."

A. Yes, I see the second item, but I also see the title, sir, [fol. 2456] and it says "Liabilities and Net Worth, All and Small Non-Financial Corporations, 1954," excluding banks and insurance carriers. That would be included in the table.

itself. I see. I was a little worried about the note. If that is the case, then, the bank liabilities would be part of the notes payable.

Q. Which is what?

A. 10.5 per cent.

Q. That is for assets under $250,000?

A. Yes, sir.

Q. For all sizes it is 4.9, is it not?

A. For all sizes, yes.

Q. Now, with reference to the companies with assets under $250,000 the bank credit is some portion of 10.5 per cent, but how much is the accounts payable item?

A. Well, according to Mr. Victor Andrews, who wrote this article, the accounts payable item for these particular companies was—let's say, we are in the percentage figure again?

Q. You are in the percent figure for companies with assets under $250,000.

A. The accounts payable show 15.4 per cent.

Q. And the bonds and mortgages payable?

A. The bonds and mortgages payable again show 16.1 per cent.

[fol. 2457] Q. So that so far as this table shows, the amount of bank credits furnished such companies as are described here is some portion of one-third of the three items of accounts payable, notes payable, and bonds and mortgages; is that so?

A. I would say that according to the author, Victor Andrews, for the type of company described here, that is so.

Q. You were talking exclusively of small businesses as being the subject of your concern. What about people? How many people borrow money from banks?

A. If you will excuse me for a moment, I will get the figure. If we define people as consumers——

Q. I don't define people as consumers. I am asking about people, whether they are consumers or whether they are spenders, or what they are—individuals borrowing money from banks—of all classes.

A. I do not know.

Q. Have you any idea of the proportion of the loans to people compared with the loans to small businesses?

A. Yes, we can find that information in terms of proportions.

Q. In terms of what?

A. You wish to know the proportion of the loans made [fol. 2458] to people as compared to the loans made to whom?

Q. Small businesses.

A. Well, when we talk of small business, obviously people represent small business, and I am not quite sure of the distinction you make between people and small business.

Q. I am talking about other than commercial loans.

A. If you are talking about other than commercial loans, we have figures on the proportion of a bank's loans that are other than commercial loans, and banks report that some of their loans are made to consumers; and if we think of those as people we do have figures.

Q. Do you know what the figures are for Philadelphia banks as a group?

A. Yes, I do.

Q. What are they?

A. Just a moment. I have an analysis of loans. This is Table 6. It has a Government Exhibit number.

Mr. Reycraft: G-6.

The Witness: And the Government's Exhibit number is also 6, and then I have a Table 6-A. Does this have a Government's Exhibit number?

Mr. Reycraft: Will you mark Table 6-A, which is a one-page document headed "Percentage Analysis of Loans [fol. 2459] and Discounts of Philadelphia National Bank, Girard Trust Corn Exchange Bank and All Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery and Bucks Counties, Pennsylvania, as of June 15, 1960" as Government's Exhibit 6-A.

(Document headed "Table 6-A, Percentage Analysis of Loans and Discounts of Philadelphia National Bank and Girard Trust Corn Exchange Bank and All Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery, and Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G-6-A for identification.)

The Witness: Table 6 indicates that the banks in question, the Philadelphia National Bank has total loans to in-

dividuals for household, family, and other personal expenditures for a total of $85,530,000, and that the Girard Trust Corn Exchange Bank has loans to individuals totaling $121,000,000, and that total commercial banks in Philadelphia alone have a total of $725,000,000, and that the total of such loans made to people in the four-county area is $789,000,000, that the percentage of the total of such business of banks in Philadelphia alone for the Philadelphia National Bank is 12 per cent, for the Girard Trust Corn Exchange Bank 16.7 per cent, and that the total of the four-
[fol. 2460] county business, the Philadelphia National Bank has 11 per cent of the four-county business, the Girard has 15 per cent of the four-county business, and the two combined have 26 per cent of the four-county business of total loans to individuals for household, family, and other personal expenditures.

In addition, the relative proportion of these loans to the total loans made by the banks is shown on Table 6-A. Both banks obviously appear on the surface of these figures to be quite competitive in this area, although Girard has the biggest impact. The PNB, Philadelphia National Bank, has 17 per cent of its total funds—that is total loans and discounts—committed to the area of loans to individuals; the Girard Bank has 31 per cent, indicating much more activity in that field; and the two combined—I don't have the two combined here.

These are the figures, then, indicating the activity in this area.

Q. Can you compare those loans to those to small businesses, which is the question I originally asked you?

A. I thought you wanted to know the loans to people.

Q. I wanted the loans to people compared to the loans
[fol. 2461] to small businesses, either in number or dollar amount, whichever way you like to do it, if you can.

A. I have figures on that also. I have figures, which I will get shortly, indicating the total number of loans in number to these individuals by each of the banks and the total loans in number to business. The numbers which come to my mind—well, perhaps I had better wait to look at the actual figure. Let me see if I can find the actual numbers, and then we won't have to speculate.

The Court: Read the question back, Mr. Schuman, so I will know what we are driving at.

(The last question was read by the reporter, as follows:)

"Q. I wanted the loans to people compared to the loans to small businesses, either in number or dollar amount, whichever way you like to do it, if you can."

A. The figures indicate——

By Mr. Price:

Q. What figures?

A. That I am about to get, that the personal loans are over a hundred thousand in number and business loans are perhaps 3000 in number.

[fol. 2462] Q. And in dollar amount?

A. Dollar amount——

Q. Were those business loans to the small businesses or to all business?

A. I am now looking at a table——

Q. Will you answer the question, then you can tell me what you want afterwards. Is it small businesses or all businesses?

A. I would say small.

Q. All right. Then what is the relative dollar amount of those loans to small businesses and to individuals?

A. I don't have the dollars; I have the numbers.

Q. So you don't know in dollars what the business done by these banks is with individuals?

A. If you will give me a few minutes to look at my figures, I may know this. I do not know it from memory, but we have collected a substantial number of data in order that one could analyze this, and I may have that figure.

Q. You look up the dollars over the lunch hour, and I will go on with something else now.

What choices have individual borrowers in Philadelphia when they want to make a personal loan, in addition to the banks which you have mentioned?

[fol. 2463] A. I would say that they certainly could go——

Q. I can't hear you, Doctor.

A. The individuals, for money, for dollars, if they not wish to go to a bank, typically go to a personal loan company, but individuals today, instead of borrowing dollars and then using these dollars to buy goods, can get credit from stores, can in essence shortcut one step. For retail purchasers, many stores will advance the merchandise without requiring the dollars. So then my conclusion is that individuals can go to consumer finance companies for dollars, but today have an increasing ability to get the merchandise directly without having to have the dollars first.

Q. So would this merger have any effect on their ability to get what financing needs they might have?

A. For that segment of the market which borrows from banks, it would have an effect. Banks typically charge a lower amount—banks definitely charge a substantially lower amount of money advanced from banks than do finance companies. The rates are such that a finance company would charge in excess of 25, 24 per cent to 36 per cent in most areas—I believe it is 3- per cent here in Pennsylvania—and a bank typically would charge around 11 per cent for the same money, although by shopping in [fol. 2464] banks one with a very good credit rating could get money somewhere closer to 6 per cent.

[fol. 2465] Q. What kind of loans are you talking about?

A. I am talking about personal loans. I am talking about an individual who perhaps wishes to buy a car.

An individual who wishes to buy a car, of which a large number of these loans are made up, when he goes to an automobile dealer to buy the car many automobile dealers will tell him that they can arrange his financing and they have contacts with three or four loan outlets, each of whom typically makes money available to them at different rates. The automobile company will get a commission for arranging the loan, so in many instances it would like to arrange a loan at the highest cost.

Where there is vigorous competition for loans of this type people are aware of the fact that banks might be able to advance them funds if their credit is sufficient at substantially lower figures than their salesman makes available to them; so, vigorous bank competition in this area has substantial benefits to people asking for such loans.

This is an example.

Q. Do you know what the facts are in Philadelphia as contrasted with theory?

A. Yes. I have a specific reference to bank competition with a loan company called the Ritter Finance Company, [fol. 2466] and this specific reference made by one of the banks officials says specifically that the Ritter Loan Company——

Q. What is this that you are referring to now? What specific reference? A document?

A. Yes.

Q. What is it? Let's see it.

A. I will get it for you.

Mr. Reycraft: Will you mark as Government Exhibit No. 192 a memorandum from S. S. Gardner to Mr. O. H. Beadle, dated March 8, 1960.

(Inter-office memorandum dated March 8, 1960, from S. S. Gardner to Mr. O. H. Beadle was marked Exhibit G-192 for identification.)

The Witness: I relied on this memo. It is a memo to O. H. Beadle from S. S. Gardner and says:

"I have discussed the proposed office of Ritter Finance at this location with M. H. Callender, who handles the account of Ritter, and J. K. Nealey in the absence of H. W. Ritter, Consumer Credit. Ritter Finance is a very good client of ours, as you know, and M. H. Callender feels we have more than a normal finance company relationship, since the principals bank with us and we have trust connections, etc. With the diversity of our consumer credit operations, we can [fol. 2467] offer any type of credit available from Ritter Finance (much of it at a lower rate), and I do not think we should lose much good business. Ritter Finance concentrates more on the high rate, small personal loans.

"I recommend that we tell Penn Fruit that we appreciate their inquiry and do not have any objection to their leasing to Ritter Finance. M. H. Callender will try to use this eventually to help us with Ritter, but without disclosing that Penn Fruit called."

This is an indication that the bank considers that a finance company loans to a different kind of customer.

I also have a quote from Mr. Brown in the deposition, in which he says that the finance companies fundamentally are really not competition, since they loan to a completely—to a substantially different kind of applicant at a substantially higher rate.

By Mr. Price:

Q. Can you give me a reference to that quote that you just mentioned of Mr. Brown?

A. Yes, sir. I will have to look for it.

Mr. Reycraft: Here is Mr. Brown's deposition.

The Witness: Well, that is on page 88 and the dis-
[fol. 2468] cussion is in reference to personal loan companies, and the question is,

> Q. With reference to personal loan companies, do you consider your bank to be in competition with personal loan companies?
>
> A. Yes, we are in competition with them.

By Mr. Price:

Q. Will you please read it all, if you are going to quote? Don't skip some.

> A. "A. With personal loan companies, yes, we are in competition with them.
>
> "Q. How do your interest rates compare with those of personal loan companies?
>
> "A. Our interest rates will be generally lower.
>
> "Q. In general, what would they be?
>
> "A. Well, they are governed—ours are governed by law and we can only charge $6 a hundred for the first $3500 of personal loans, and the same limitation does not apply to the personal loan companies.
>
> "Q. What is the legal limitation that applies to personal loan companies?
>
> "A. I am not sure what that is.
>
> "Q. It is substantially higher, is it not?
>
> "A. I believe it is.
>
> [fol. 2469] "Q. Do you know the reason for this?

"A. I think it's probably because the average size of the loan is smaller and perhaps requires a greater interest rate to recover.

"Q. Isn't it true also that the type of risk which a personal loan company takes frequently is different from what your bank would take?

"A. I don't know what they do.

"Q. Do you have any accounts, do any personal loan companies have accounts with your bank to borrow funds to use in their business?

"A. Yes, they do.

"Q. Do you know how many of these accounts you have?

"A. No, I do not.

"Q. Are these accounts primarily local accounts?

"A. I would say that our personal loan company accounts would be perhaps evenly divided between local and all over the country."

Well, let me see if there is anything more on the competition in this area.

Q. Now will you look at the top of page 92, which is an answer to a question beginning on the bottom of page 91?

A. Let me look at 91 first.

[fol. 2470] Q. Will you read that question and answer, please?

A. (No response.)

Q. Out loud.

A. Well, I have to see where we start.

Q. Start at the bottom of page 91, as I told you.

A. At the bottom of page 91 there is a question:

"Q. I understand.

"Now a few minutes ago I asked you about the relative degree of risk taken by your bank on personal loans and by personal loan companies. As Executive Vice President and President of your bank for a number of years, don't you have an opinion as to the relative degree of risks taken?

"A. Yes, I have an opinion. I would say that there is very little difference between the type of people that make personal loans at personal finance companies and make personal loans with our banks; and I think it's

just unfortunate for those people that they don't realize that we make the kind of loans that they make at the small loan companies.

"Q. You think it is a lack of information rather than the question of risk?

"A. There are many factors that enter into it, but I think there is a great lack of information on the part [fol. 2471] of a personal loan borrower as to what his qualifications are for personal loan; and he thinks because he has to walk upstairs that it must be better or something about it is more attractive than being seen in a bank."

Q. Is your conclusion from that that Mr. Brown thinks it is competition or not?

A. Yes, Mr. Brown thinks there is competition.

Q. And what about Mr. Gardner?

A. Sir?

Q. And what about Mr. Gardner? Do you think he considers it competition or not?

A. There is some competition. I take it from Mr. Gardner's memo that he thinks there is some competition, yes.

Q. Then yesterday, when you were discussing Mr. Gardner and this very same memo, you said on page 1743:

"—there was a document that had reference to the Ritter Finance Company, a local company here, and again an opinion by a bank officer that the competition of the loan company is simply insignificant. They are in a completely different market, as far as the bank is concerned, that they loan to a completely different kind of customer, they are not in competition."

[fol. 2472] Now, that is what you said yesterday. What is your opinion today?

A. My opinion is that for a substantial part of the business between personal-loan companies and the banks, they are not in competition. For a part of the business they are in competition.

Therefore, I would say that in general banks do compete with personal-loan companies for some of the loans made to consumers.

Q. Do you know of the relative volume of personal-loan

business through the small loan companies as compared with the banks?

A. I have figures from the Third Federal Reserve District Bank of Philadelphia indicating the proportion of loans to consumers made by banks as compared to the proportion of loans to consumers made by personal-finance companies.

Q. And how many of the personal-finance companies? What are included in that category?

A. Well, the Federal Reserve Bank includes in their discussion here companies making small personal loans to individuals who use the funds to buy consumer durable and nondurable goods, to meet household expenses, to consolidate prior debts, and for other purposes.

Personal-finance companies obtain their funds from the [fol. 2473] sale of securities and by borrowing from other financial institutions. Loan-size limitation and maximum interest rates are prescribed by state law.

That is the definition of personal-finance companies.

The Court: We will go on this afternoon.

(Recessed for luncheon at 12:27 o'clock P. M.)

[fol. 2474] [File endorsement omitted]

AFTERNOON SESSION

OSCAR GOODMAN, resumed.

Cross-Examination (continued)

By Mr. Price:

Q. Did you find that paper, Doctor, that you said you had as a basis for some statement you made before lunch, that you were going to look for during the lunch hour?

A. What statement do you have reference to?

Q. You had or said you had a document which would justify a statement which you made before lunch and that you were going to look for the document over the lunch hour. Did you look for it?

A. Well, I have a number of documents here. If it is the

80 per cent statement you are referring to, I have a document on that. If it is the number, I have a document on this which——

Q. I think it related to the dollar volume of loans to individuals as compared to the dollar volume of loans to small businesses. I asked you to compare those. You said you had a document which would give you the necessary information, which you couldn't lay your hands on at the moment, and since it then was about a quarter past 12:00, I asked you to look for it over the lunch hour.

[fol. 2475] A. The document that I have has reference to the number of loans, consumer loans, total number of loans of the Philadelphia National Bank and the Girard——

Q. You gave us the number, but I asked you about dollar amounts.

A. I believe I gave you my estimate of what the number was, and I said I would look to see what specific information I have. I now have the information upon which I based my estimate, and that is that the total number of consumer loans is approximately 127,000, as compared to 10,000 commercial and industrial loans for the combined banks.

Q. Does that include all commercial and industrial loans or only those under $50,000?

A. This is all commercial and industrial loans.

Q. Have you got the number of those under $50,000? Before lunch you said there were about 3000.

Mr. Reycraft: Do you mind if I give him the exhibit number?

Mr. Price: No.

Mr. Reycraft: G-181.

A. The number of commercial and industrial loans—what number are we looking for now?

Q. Under $50,000.

[fol. 2476] A. The number of commercial and industrial loans for the Girard Bank under $50,000 in 1955 was 1300, in all was 1300. In the four counties, 1150.

Q. How many all together?

A. Of all sizes now?

Q. Under $50,000 is what we are talking about. Well, it is 3702, isn't it, right in front of you on the table?

Mr. Reycraft: No. It is 5000.

A. Well, the figure for the Philadelphia National Bank on the table I have indicates 2670 and for the Girard, 1146 in the four-county area, and for the two combined, 3816 in the four-county area. I am not quite sure about the 5000 figure that you have reference to on the table.

Q. What is the figure that is comparable to the 120 some thousand that you mentioned a few minutes ago?

A. The figure that I mentioned a few minutes ago had reference to the total number of consumer loans for the Girard Bank—the figure for the total number of consumer loans for the Girard and the PNB was 127,000. For the Girard alone the total figure in the four-county and other area was 65,000. Now, the figure that I am now reading on G-181 refers to the number in 1955, and these two are not [fol. 2477] directly comparable.

However, in 1955 the total number of loans for the Girard Bank, which would be approximately comparable to the 1960 figure, is 1146 in the four counties, 210 outside, 1356 in total, so the 1356, therefore, is somewhat comparable to the 65,000 for total consumer loans in 1961. That is as close as I can come with the figures that I have in front of me.

Q. Can you give me the comparative figure in dollars of the commercial loans under $50,000 and the loans to individuals?

A. Well, I can give you the dollar figure for the loans to individuals, because we have, as we earlier looked at, the figure from the bank's records, which is on Table 6, which I believe is Government Exhibit 6, which indicates in dollars the total consumer loans, individual loans, for the Girard Trust Corn Exchange Bank, as of June 15, 1960, was $121,000,000. This would obviously reflect the dollars which correspond to 65,000 loans which are listed as the number of consumer loans on the compilation that I have. Now, the figure involving the dollars and the number of industrial and commercial loans——

Q. Under $50,000.

A. —under $50,000, I must refer to my table for 1960 and see what information I have. The data on G-181 refers

to 1955 and is not comparable directly, although it gives [fol 2478] us some general impression. The loans in 1960 could not be too much different.

Q. All I am asking you is the figure——

A. Let me look for that data and I will see if I can find it.

Mr. Reycraft: What figure?

Mr. Price: Commercial and industrial loans under $50,000, compared with the figure of 121,000 for loans to individuals.

(The witness looked through his papers.)

Mr. Reycraft: I refer you to Government's Exhibit No. 21 (handing).

The Witness: On Table 20 we have the data from the Girard, and we also have some data which will perhaps shed some more light on the 1955 report. In other words, I think if you will look at the Tables 9 and 10 and Tables 20 and 21, we might be able to get your question answered.

The commercial and industrial loans for the Girard Bank in the four-county area of under $50,000 were approximately——

Q. What exhibit is that, Doctor, you are reading from?

A. Table 20 now. I have previously given you a figure for the total consumer loans, in which the figures indicate [fol. 2479] that the total consumer loans for the Girard Bank in the four-county area were 44,000, in other areas were 21,000, for a total of around 65,000, and in dollars I refer to the Schedule A, the dollar amounts of consumer loans reported by the Girard Bank as of June 15, 1960, which I read a few moments ago.

Q. Schedule A of what? What is Schedule A?

A. Schedule A is part of the so-called Call Report, the statement of condition which is filed by commercial banks in response to a request by either the Comptroller of the Currency or by the State banking authorities. Such a call was asked as of June 15, 1960, and Schedule A is that part of the call report which details the information on the loan activities of the bank.

Q. Is there anything in the schedule which shows the loans under $50,000?

A. Mr. Price, you have asked me to give you data——

The Court: You can answer the questions, Doctor, without quibbling. Answer the question yes or no, and then we will have another question.

Read the question.

(The reporter read as follows:)

"Q. Is there anything in that schedule which shows [fol. 2480] the loans under $50,000?"

A. There is no category of loans given in the schedule.

Q. Then you don't know the amount and can't give us the amount in dollars of the loans under $50,000 which are comparable to the figure of $121,000 for the individual loans?

A. Yes, I can, Mr. Price.

Q. Well, why don't you give it to us? I have been asking you for that at least for half an hour.

A. Well, I will try again. On Table 21, for the Girard Bank, based upon information supplied by the bank, the number of commercial loans under $50,000 is approximately 3000, and in dollar volume $27 million.

Q. So that they are about a quarter less than the volume of loans to individuals, are they not?

A. Yes.

Q. What are the alternative choices that persons, individuals, have for personal credit in addition to the 15, 16, or 17 banks in Philadelphia?

A. I must correct that figure. No, that is right.

Give me your question again, will you, please.

(The reporter read as follows:)

[fol. 2481] "Q. What are the alternative choices that persons, individuals, have for personal credit in addition to the 15, 16, or 17 banks in Philadelphia?"

A. They have consumer finance companies, primarily consumer finance companies. That is the main competition, alternative source.

Q. Savings and loan associations?

A. Savings and loan associations loan on a secured basis and typically put the overwhelming proportion of their money into mortgage loans. We have statistics which indicate that this is almost 85 per cent of their total funds.

Q. Do they go in for any other kind of lending than mortgage loans?

A. To a very limited extent, as it is obviously indicated by the figures.

Q. Obviously what?

A. To a very limited extent, if any.

Q. You don't think that they solicit actively such loans? In Philadelphia, I am speaking of.

A. I do not think in Philadelphia that the proportion of the loans that they would make of their total lending capacity to consumers would be very large.

[fol. 2482] Q. Have you any actual information on that other than your own guess?

A. I do not have any statistics on this.

Q. Let me read you from an advertisement which has just been issued by the Quaker City Federal Savings and Loan Association and see if this has any effect on your opinion. This was issued within the week.

> "Did you know that you can borrow from $500 to $3500 from Quaker City Federal to improve your home? And you can repay your loan with monthly payments over a period of one to five years.
>
> "Yes, Quaker City Federal's FHA Property Improvement lending service has helped many families to build a new recreation room, modernize the kitchen, bathroom, paint, install a new roof and improve many other facilities.
>
> "Interest on amounts up to $2500 is five per cent, on the amount from $2500-$3500 four per cent.
>
> "If you want to modernize or repair your home an FHA Property Improvement Loan at Quaker City Federal is the solution."

[fol. 2483] Were you informed about such advertisements or such appeal to borrowers in Philadelphia before you reached your opinion in this case?

A. I am informed about the lending practices of savings——

Q. I couldn't hear your answer.

A. I am informed about the lending practices of savings and loan associations, and this again points out that savings and loan associations restrict their loans primarily to secure

the loans on real estate. The loans of the type that you have reference to are for a very narrow and restricted and particular purpose and would be secured, as opposed to the general range of loans made to consumers by commercial banks for various purposes.

[fol. 2484] Q. But to the extent that they make such loans they are in direct competition with commercial banks, are they not?

A. Oh, yes, yes.

Q. And they offer an alternate choice of source of money to prospective borrowers, do they not?

A. Yes.

Q. All right.

And both state and federal savings and loans are in that business, are they not?

A. Yes.

Q. What about credit unions?

A. Credit unions are an alternative source of funds for those consumers who belong to credit unions. They do not lend to all people and their rates are relatively high to banks, but relatively low compared to personal-finance companies; but would not be, in essence—would therefore service a quite limited market and I do not think, therefore, would be any substantial competition to commercial banks, although they definitely are a competitive alternative for those people.

Q. Have you finished?

A. Sir?

Q. Have you finished?

A. Yes, sir.

[fol. 2485] Q. What about commercial-finance companies?

A. Personal-finance companies would be in competition for consumer loans, for such purposes as buying an automobile, which is a rather substantial part of the business.

Q. That is in competition with banks?

A. (No response.)

Q. With commercial banks?

A. (No response.)

Q. Is that not so, Doctor?

A. They are in competition with commercial banks for that segment of the business.

Q. What about sales-finance and personal-loan companies?

A. Personal-loan companies we discussed earlier, in which we pointed out that their rates are so substantially higher than banks that for a very substantial part of their business they are non-competitive.

For part of the business, those people who perhaps are uninformed or through inertia, there is part of the business that goes to personal loan companies of the consumer loan nature that there is some competition.

Q. But they are right in direct competition with commercial banks, are they not?

A. For a very small part of their total business, yes.

Q. Do you know the range within which small loan com-
[fol. 2486] panies may operate in Pennsylvania?

A. The figure, I believe, is that up to $600 they can lend money at a rate of 3 per cent, and at over $600 the rate progressively drops to 1½ or less.

That being the case, the companies, of course, are most interested in getting those loans on which they can get the highest rates.

Q. Isn't it a fact that the variation in rate is under $600 and that they have no authority to lend over $600 at a rate in excess of 6 per cent?

A. If that is so, I am not so informed.

Q. Then what do you know about consumer discount companies and the range within which they may lend?

A. Consumer-discount companies? I am not sure what you mean by a consumer-discount company.

Q. Then you wouldn't know how many consumer-discount companies there are in Philadelphia, would you?

A. No, no.

Q. Or the number of small-loan companies?

A. Yes. I have statistics.

Q. How many are there in Philadelphia?

A. I have statistics on these figures.

Q. How many are there?

A. I must refer to my statistics. I do not know offhand
[fol. 2487] but if you will give me a moment I will give you the figures indicating the number of small-loan companies in Philadelphia.

I believe the information was in the application. I don't have a copy of it now. I will have it for you in a minute.

The Court: Hand him G-57 and let him look.

The Witness: It is in the record.

The Court: That is the application.

The Witness: What category did you ask me for?

The Court: Small-loan companies.

The Witness: There were 313 licensed small-loan companies included in the four-county area that we have.

By Mr. Price:

Q. And how many savings and building-and-loan associations were there?

A. Savings and building-and-loan associations?

Q. Yes, savings-and-loan and building-and-loan. They are essentially the same thing, but with different names.

A. Well, I will see if they are here in the application. If they are not I will have to find my other source.

Savings-building-and-loan associations in the four-county area are listed in the application, and in 1959—let's see. I have the total number of accounts—I don't locate the number here—here we are, savings and building-and-loan asso- [fol. 2488] ciations. In the four-county area there were 421, according to the application.

Q. And how many credit unions?

A. There were 270 credit unions in the Philadelphia area according to the application.

Q. And how many commercial-finance companies?

A. Are you referring to sales-finance companies or a category other than this?

Q. Commercial-finance companies.

A. I don't seem to locate it here. I will have to check my other data unless you know where it is in the application.

Do you know where it is in the application?

Q. I didn't think it was in the application and the figure that I had was 63, but if you have a different figure I will be glad to hear it.

A. If it isn't in the application I will be glad to check my other sources to see if I can check the figure.

Q. I think my figure of 63 was only the largest, and the

actual number is very much in excess of that, but perhaps you have an accurate figure.

A. I am willing to accept your figure, but I am using a secondary source here. I assume you know what the figures are.

Mr. Reycraft: We will accept the figure.

[fol. 2489] The Witness: I will take your figure.

By Mr. Price:

Q. Well, then, there are all these hundreds of different sources of individual credit for persons who need it in Philadelphia and the four-county area, are there not?

A. Those sources are available, yes.

Q. In addition to the department stores, which you say also finance purchases by their customers?

A. Yes.

Q. Now, you made the four-county area the boundary of your discussion and consideration?

A. Yes.

Q. Is there any logical reason why a political boundary should be accepted as the boundary of the extent of credit needs for banking services?

A. Yes.

A. Why?

Q. The four-county area is the only area within which these commercial banks can legally open offices out of which they can do business, and this fact typically restricts the major part of their business to this area.

Q. The tables to which you have referred recently show that a very large portion of their business is conducted outside of the four-county area, do they not?

[fol. 2490] A. My tables infer to me that in most categories approximately 80 per cent of the business is done within the four-county area and 20 to 25 per cent outside; and in many of the categories the figures run as high as 90 or 94 per cent within the four-county area.

This repetition is such in most of the categories and for the whole business as a whole that I conclude that the area is the four-county area.

Q. And you are speaking now exclusively of the market that is descriptive of the bank's activities, are you not?

A. I am speaking of the geographic market in which the banks operate, yes.

Q. All right.

So it is the banks' market and not the customers' market that is the four-county area, isn't it?

A. The decision—my conclusion on the four-county area was based on where the customers come from. The percentages deal with the customers, the geographic area from which the customers originate; and when these statistics running from 70 to 95 per cent in most of the categories come from that area within which the customers originate, this again buttresses the hypothesis that the banks' area should be that area within which they can legally maintain offices, and the statistics bear out that hypothesis.

[fol. 2491] Q. Then you are speaking of the market area of the banks as distinguished from that of their customers, are you not?

A. I am speaking of the market area within which the banks operate, yes, sir.

Q. Do you know whether these banks or either of them does more business in Bucks County than it does in Chester County or in Camden?

A. My analysis in terms of the percentage of business done, the figures that I have most readily available deal with Philadelphia and the rest of the four counties and all of the area outside of the four counties.

However, I may have some statistics on business done by some of the banks which were merged into the organizations in a particular part of the geographic area, but in general my answer would be that I do have statistics on that part of the business which is done in Philadelphia County and that part of the business which is done in all of the other three counties and that in part of their business which is done in all other places.

Mr. Price: That doesn't even remotely answer my question.

Will you read him the question, please?

(The pending question was repeated by the reporter as follows:

[fol. 2492] "Q. Do you know whether these banks or either of them does more business in Bucks County than it does in Chester County or in Camden?")

The Witness: No.

By Mr. Price:

Q. Do you know how much business New York banks do in Philadelphia?

A. I do have some figures on New York banks' activities in Philadelphia which were published by the Federal Reserve Bank of New York.

Do you want that dollar figure?

Q. I am asking you if you know how much they do in Philadelphia; and if you do know, please tell me.

A. I know how much of the business done by 18 banks in New York City in Philadelphia, Chicago, Dallas, San Francisco, and some other cities is, but this is only of the 18 central reserve banks in New York City.

Q. We are not interested here in Chicago, Dallas, San Francisco, or any place except Philadelphia; and my question is limited to the amount of business done by New York banks in Philadelphia.

Do you know that or don't you?

A. I know it for 18 banks in New York City.

Q. How much is it?

[fol. 2493] A. I will have to look.

Mr. Reycraft: This is D-1, I believe, Dr. Goodman.

The Witness: Oh, yes. This is one of your exhibits. It is the Monthly Review of the Federal Reserve Bank of New York for May, 1957, and it tells us New York City bank loans to non-local borrowers and the heading is "Commercial Loans Made By Second District Member Banks to Borrowers in Other Federal Reserve Districts, By the District of The Borrower, Outstanding as of October 5, 1955."

We have the total amount made by central reserve New York City banks, by other Second District member banks, and by all Second District member banks, and the location of the borrower is given by Federal Reserve District and not by the city itself.

By The Court:

Q. $348,000,000 for the Third District, or thereabouts?

A. The figure for the Philadelphia district is $308,000,000 by the central reserve, $29,000,000 by other Second District banks; and $337,000,000 by all Second District banks, the total loans made in the Third District.

Q. $337,000,000?

A. Yes, sir.

Q. Will you look at the footnote and see if it isn't $107,-
[fol. 2494] 000,000 in the city of Philadelphia?

A. Yes. Footnote 3 indicates that in the City of Philadelphia the figure is $113,000,000.

By Mr. Price:

Q. Have you any comparable figures for sources other than New York or the Second Reserve District?

How much business is done in Philadelphia by banks in Baltimore, Washington, Boston, Wilmington, and other places?

A. No.

Q. Have you any idea what the total value of banking business in Philadelphia is?

A. (No response.)

The Court: Is that all-inclusive now?

Mr. Price: Yes, sir.

The Witness: I don't have that figure.

By Mr. Price:

Q. Have you any idea what the total banking business done in the four-county area is?

A. I do not have that figure.

Q. Do you know what the banking needs of all the businesses in the four-county area are?

A. No.

Q. Or the banking needs of those in the Philadelphia area?

[fol. 2495] A. No.

Q. Do you know whether such needs have been adequately met in the past?

A. No.

Q. You were asked by Mr. Littleton to look at page 372 of this green book called "Financing Small Business" and that was in connection with the interest rates paid by small businesses.

A. Yes.

Q. I will ask you to look also at page 32 in connection with that subject and read the sentence at the top of page 32 which begins, "Also, the banks . . ."

A. Wait until I get my own copy of this.

Yes. Where do you want me to read?

Q. I beg your pardon?

A. What do you want me to do?

Q. At the top of page 32.

A. Yes.

Q. The first full sentence on that page.

A. The sentence starts:

"The reason given for this is the tendency of large banks to make small business loans . . ."

Q. In my copy it begins:

"Also, the banks . . ."

[fol. 2496] A. On page 32? The first word on page 32 in my book is "make."

Q. Yes, and I asked you to begin the first full sentence.

A. Oh.

"Also, the banks in large urban centers tend to make more of the specialized high-risk loans than do the small banks."

Q. Go ahead.

A. "These findings suggest that a certain kind of credit risk accommodated at high rates at large banks is virtually excluded at small banks at any rate."

Q. In other words, small banks won't take certain risks that are handled by large banks alone?

A. All banks, large or small, vary in the kinds of risks that they will accept.

Q. But doesn't this sentence or don't these two sentences that you just read indicate that the large banks take certain risks that the small banks won't touch?

A. Yes.

Q. Now will you turn to page 148 of the same book?

A. Yes.

Q. And read the first sentence under the paragraph which is headed "Conclusions."

A. "One measure of the adequacy of financing is the [fol. 2497] health and ability to grow of small businesses. By this test, financing appears to have been adequate for the sector as a whole in the postwar period."

Q. Have you any information that the financing was adequate in the Philadelphia sector as a whole?

A. The question of adequately was one that I did not address myself to.

Q. Will you read the paragraph which commences near the bottom of the page with the words, "A second measure . . ."

A. Where are we now?

Q. Will you read that paragraph, please?

A. I am sorry, Mr. Price, but I am not sure just what you want me to read.

Q. It is the last one on the page, beginning with the words, "A second measure . . ."

A. Yes.

"A second measure of the adequacy of financing is a fair and equitable distribution of funds. Although it is impossible to set up an absolute standard of fairness, a guide is furnished by trends in the availability and terms of financing. On this basis, it can be said that in the postwar period, credit has become more readily available to small-business, for more extended periods, [fol. 2498] and at a cost that has differed less and less from that of large businesses. In fact, the tremendous postwar increase in indebtedness of small businesses might raise the contrary question of whether credit had become too readily available and at too low a price relative to the cost of equity."

Q. Now, have you any information which would indicate that that statement does not apply equally well to Philadel-

phia and the four-county area as it does to the larger area referred to in this book?

A. I have some observations by the Third Federal Reserve District Bank relative to the study made of loans in the Third Federal Reserve District and I will refer to them if you so desire, which will give you my understanding of their interpretation of this same figure.

Q. That doesn't answer my question, Doctor.

Mr. Price: Will you read him the question, please?

The Witness: Read me the question.

(The question was repeated by the reporter as follows:

"Q. Now, have you any information which would indicate that that statement does no apply equally well to Philadelphia and the four-county area as it does [fol. 2499] to the larger area referred to in this book?")

The Witness: I will look at it very carefully. No.

By Mr. Price:

Q. Will you refer to Table I, which appears on page 375 of the green book, the green book being the "Financing Small Business" book that we have been talking about?

A. Yes.

Q. I call your attention——

The Court: Just a minute, Mr. Price.

Mr. Price: I beg your pardon?

The Court: Has this been marked?

Mr. Reycraft: No, Your Honor. I will mark it at this time.

The Court: Will you mark it now and give it an exhibit number?

Mr. Reycraft: Will you mark as Government's Exhibit 193——

The Court: Do I have this? May I keep this? That is 193?

Mr. Reycraft: 193, Your Honor, which is a Committee Print, Financing Small Business, 85th Congress, 2d Session. The title is "Financing Small Business, Report to the Committees on Banking and Currency and the Select Commit-

[fol. 2500] tees on Small Business, United States Congress, By the Federal Reserve System, Parts 1 and 2, April 11, 1958." It consists of 549 pages.

(Printed, bound document of 549 pages, being "Committee Print, Financing Small Business, Report to the Committees on Banking and Currency and the Select Committees on Small Business, United States Congress, By the Federal Reserve System, Parts 1 and 2, April 11, 1958," was marked Exhibit G-193 for identification.)

[fol. 2501] Q. I believe, Doctor, that this particular table to which I have called your attention was copied and is marked G-180. I will check that, and if I am wrong, I will ask the reporter for the right number, but in the meantime, I call your attention to the two columns under the general words "Number of Loans," more particularly "Thousands," and still more particularly "1955 to 1957."

Do you find it?

A. I think so.

Q. And were those the figures that led you to say yesterday that, in your opinion, small business was unable to get the loans that it needed or wanted?

A. These are not the figures that I based my conclusion on, but we can take a look at them.

Q. Well, did you say yesterday that, in your opinion, between 1955 and 1957 the amount that smaller businesses were able to get diminished in those years?

A. I don't think I said that.

Q. Do you believe it to be true?

A. My statement would be that the amount of loans which small business was able to get was increased substantially less than the amount of loans which larger businesses were able to get, and that therefore it was my conclusion that there was discrimination in the ability of small business [fol. 2502] to get loans relative to large business to get loans in periods of tight credit relative to periods of credit ease.

Now, these figures indicate that businesses whose asset size is less than $50,000 had a percentage change in the size of loan which they were able to get of minus 3 per cent from 1957 to 1955, and that businesses from the asset side of less than $50,000 to $5 million all received less in average size of loan from 1955 to 1957, but that large businesses,

and as we go up the scale, $5 million to $25 million, were able to get 3 per cent greater average sized loans, $25 million to $100 million were able to get 23 per cent increase in their average sized loan, and that the largest businesses, $100 million or more, were able to get 55 per cent increase in their average size of loans.

This is one of the statistics that I rely upon to indicate that the ability of smaller business to share, if you like, in bank funds made available to business in times of tight credit is severely restricted relative to that of large business, and I based my conclusion upon some observations which I think I made.

Q. What is the table to which you referred which indi- [fol. 2503] cates an ability or inability to get more than the borrower either wanted or asked for?

A. In the table this reports business loans of member banks from 1955 to 1957 by size of borrower, and it clearly indicates that the smallest borrowers got less than the largest borrowers, relatively speaking. I have no basis and I have seen no figures to back up an assumption that their demands were less than those of big business, relatively speaking, or that their share in the prosperity of the period was any less or could have been any less. Having no statistics to back up a conclusion that their demands were less, and having the statistics clearly indicate that their take was less, I come to the conclusion that their take was less because they were given less.

Q. And you have no information as to whether they asked for less or got any less than they needed during that period, have you?

A. Well, I have the observations of prominent economists made during the period itself. I have the observations of economists making these observations at that time, and I shall be glad to read them to you: Sumner Slichter, Elliott Bell, John Galbraith—economists from the various federal reserve districts—I believe I have about 15—all making the [fol. 2504] observation that, in their opinion, there is no basis to assume that small business demanded less but got less.

Q. Let me read you from Page 1768 of your testimony of yesterday, when you were discussing this subject, with particular reference to the same table.

"The statistics then clearly indicate that the amount of loans which smaller businesses were able to get was substantially restricted relative to the amount of bank loans which larger businesses were able to get in 1957 relative to 1955."

Do you rememer saying that?

A. I said quite a bit in the last day and a half, and I will assume that if it is there, I said it.

Q. Do you remember saying that?

A. Yes.

Q. Do you agree with it now today?

A. Read it to me again, and I will tell you if I agree with it or not.

Q. "The statistics then clearly indicate that the amount of loans which smaller businesses were able to get was substantially restricted relative to the amount of bank loans which larger usinesses were able to get in 1957 relative [fol. 2505] to 1955."

A. Yes, I agree with that.

Q. That is not quite consistent with what you said a few moments ago.

A. Read to me what I said a few minutes ago so I can compare them, and perhaps then I can elaborate.

Q. You mean you don't remember what you said only a few minutes ago?

Mr. Reycraft: Will you point out the inconsistency?

Mr. Price: Yes. Instead of referring to these statistics which were in the table, he want off on a long list of documents and legal statements and opinions of other people which weren't mentioned at all yesterday and which now he says apparently have some significance in his conclusion.

Mr. Reycraft: And what is your point?

By Mr. Price:

Q. Why did you say what I read you as having said yesterday and say something different today?

Mr. Reycraft: Will you point out where it is different. I am having trouble following myself.

Mr. Price: Well, I won't point it out any more. If he finds no difference, we will let it stand.

[fol. 2506] The Witness: I don't know what you have reference to, Mr. Price.

By Mr. Price:

Q. Do you see no difference?

A. You will have to indicate to me two statements which I can then consider and compare. Now you have indicated to me one. Give me the other one, and I shall then compare it.

Q. Well, I will pass on to the next subject.

This is a quotation from what you said yesterday, which appears on Page 1722:

> "Now, in terms of explaining the reason for this, their general statement is that the results of the survey suggest that tight money bore harder on small business than on large. However, they suggest that perhaps there were some other reasons, and one possible reason, although there is no evidence, is that perhaps there was a change in demand. Perhaps small business did not want as much money. There is no evidence to bear out this observation."

Is that what you said yesterday?

A. I think I would say it again today.

[fol. 2507] Q. And you were referring at that time, were you not, to the June, 1958, issue of the Federal Reserve Bank of Philadelphia "Business Review"?

A. Well, I don't remember, Mr. Price, what I was referring to at that time.

Q. On Page 1771 you said:

> "Now, then, the Federal Reserve Bank of Philadelphia in June of 1958 analyzed the results for the Third Federal Reserve District of the 1957 loan survey, and they suggest—I have the page here, Page 15——"

Do you recall now having referred to it?

A. Mr. Price, you have in front of you my statement. I do not. If I had it in front of me, perhaps I could recollect also.

(Mr. Reycraft handed a copy of the testimony to the witness.)

By Mr. Price:

Q. I will ask you to get a copy of the Federal Reserve Report which you had yesterday, and which you referred to. Perhaps Mr. Reycraft can supply you with it.

A. I don't think he can. I will look for it.

The Court: Gentlemen, due to the fact that I came in late, I am going to sit till 4:15 this afternoon. We will take our [fol. 2508] 10-minute break at this point.

(A 10-minute recess was taken at 3:15 P. M.)

By Mr. Price:

Q. Dr. Goodman, have you got a copy of the Federal Reserve Bulletin?

A. I have a copy of my notes from it. I do not have the bulletin itself, but I do have what I had yesterday.

Q. Well, I don't think I can rely on your notes. I will give you the bulletin to read in a moment, but let me call your attention to this statement of yours of yesterday which appeared at Page 1771 of the record. Discussing the Federal Reserve Bank:

> "They suggest that small banks, specialists in small business financing, did not do as much changing of their lending policies as did big banks. They say big banks did most of the changing of the standards of their lending policy, and they say that the results of the Federal Reserve survey suggests that tight money bore harder on small business than on large business."

And then you went to say that perhaps small business did not want that much money, but there was no evidence [fol. 2509] to bear out this observation. That was your statement on Page 1772.

Now I will ask you to read from Page 15 of this Federal Reserve Bulletin of June, 1958, the column on the right-hand side of the page, the paragraph beginning, "It looks as though tight money . . ." Will you read that, please.

A. "It looks as though tight money hit small business hardest. But let's take a closer look. Remember, there are two sides to every coin, and to every question. In business the sides are called supply and demand.' Monetary

policy works on the supply side. The comparatively smaller increase in loans to small business could be because the supply of small business credit was squeezed harder. Or it could be because the demand for loans from small business did not increase as much."

Q. Will you continue, please.

A. "There is evidence to indicate the latter was true. All industries did not participate equally in the recent boom. Those that expanded most rapidly had the greatest reason to borrow."

[fol. 2510] Q. Continue, please.

A. "The boom seemed to be concentrated in industries in which large firms are typical. Metals, petroleum, chemicals, rubber, and public utilities—all large-scale industries—scored some of the greatest gains in both sales and bank loans. Thus the relatively greater increase in loans to larger borrowers may be due in part to relatively greater expansion of large-firm industries rather than to an uneven impact of tight money."

Q. Go ahead.

A. "From 1955 to 1957, small banks experienced a relatively smaller loan increase than large banks. This also suggests a less hearty demand for loans from small firms as compared to the big corporations."

Q. Go ahead, please.

A. "The prime sources of short-term credit to small business were less affected by monetary restraint than were many other lenders. From 1954 to 1957, small banks had a relatively greater deposit growth and were consistently in a better lending position than large banks. Big corpora-

[fol. 2511] tions were heavy borrowers from large banks and, in addition, tapped the security markets for greatly increased sums. No doubt a significant portion of these proceeds was available to small firms in the form of trade credit. Factors and finance companies also were able to build up their funds for small-business lending."

Q. Now will you read the first two sentences of the conclusion on the opposite column beginning "Small business in general has been holding . . ."

A. Can I see what they are leading up to?

Q. If you will read this, you can do anything you want. I am just comparing this with your testimony yesterday.

A. "Small business in general has been holding its own in the postwar period. It has access to great quantities of short and intermediate credit. The supply of long-term credit and loans, however, seems somewhat less than adequate. In the words of Federal Reserve Chairman Martin, this gap 'may be inhibiting the prosperity and growth of the nation.'"

Q. Thank you.

[fol. 2512] A. May I just look at this?

Q. Yes.

A. You don't want me to read anything more from this?

Q. No, thank you.

Yesterday I think you testified that the merger would substantially affect the availability of small business credit. What information if any have you on the needs of small business for credit in excess of that which they actually obtained?

A. I did not address myself to the question of adequacy.

Q. Did you think that the existence of a larger bank formed by the merger of these two, the Girard and the Philadelphia National, would adversely affect small business because of a lack of credit?

A. No.

Q. Are you familiar, in general, with the English banking system?

A. I have not made a detailed study of it.

Q. But I presume you know there is a very large concentration—using that term in the same sense that you have heretofore—a very large concentration of banking re-[fol. 2513] sources in very few hands in England; is that not so?

A. Yes.

Q. About five banks control practically all of the available banking resources and credit facilities in Great Britain, do they not?

A. There are about 11 or 13 banks there, and I don't know the percentage, but I will accept that statement.

Q. Are you familiar with the Radcliffe report on the English banking system?

A. No.

Q. That was a report rendered by a royal commission on

the subject of English banking and was a general review of the entire system. You are not familiar with that?

A. I have read, I believe, some parts of it, but I am not familiar; I have not made a detailed study of it.

Q. Do you recall, in the portions that you did read, that in that report there was no suggestion at any time that the concentration of banking assets had any adverse effect on the financing of small business?

A. I do not recall that statement, but it may have been there. The English banking system is completely different [fol. 2514] from the United States——

Q. I couldn't hear that, Doctor. I am sorry.

A. The English banking system is completely different from that of the United States.

Q. And particularly so in the concentration of assets in very few hands, is that not so?

A. It is completely different in many aspects, but, as I say, I have not made a detailed study of the English banking system. I can merely say that it is completely different in many aspects. I have not compared it directly.

Q. But without any direct comparison you know, do you not, Doctor, that there is a very much larger concentration of banking resources and credit in England than——

Mr. Reycraft: Your Honor, I object to going into the English banking system at this time.

Mr. Price: This witness has been offered as an expert, and I am testing his knowledge of a perfectly simple fact.

Mr. Reycraft: He hasn't talked about the English banking system. He hasn't professed any knowledge.

[fol. 2515] The Court: You have made an objection. The objection is overruled. Proceed.

The Witness: I don't have your last question.

(The last question was read by the reporter, as follows:)

"Q. But without any direct comparison you know, do you not, Doctor, that there is a very much larger concentration of banking resources and credit in England than——".

By Mr. Price:

Q. —anywhere in this country?

A. I don't believe I could accept that statement. In this country there are some places where the concentration is very substantial.

Q. You are speaking of the one-bank towns of which there are some three thousand in this country; is that it?

A. No, I am speaking of some large cities where the concentration is quite substantial.

Q. I call your attention to Exhibit G-185 which was identified yesterday.

A. Yes, I have G-185.

Q. I notice that on Pages 3 and following of that exhibit [fol. 2516] the Finance Company of Pennsylvania, Pennsylvania Warehousing and Safe Deposit Company, and Brown Brothers Harriman were omitted from the totals of figures.

A. Yes.

[fol. 2517] Q. Is it not a fact that the Finance Company of Pennsylvania and the Pennsylvania Warehousing and Safe Deposit Company are banks?

A. They have bank charters, but I do not think that they are commercial banks as one usually uses the term.

Q. And they have the authority and capacity to receive demand deposits, have they not?

A. They have such authority.

Q. And likewise the power and authority to create credit by making commercial loans?

A. They have such authority.

Q. And those are the only two unique characteristics which you have described which are peculiar to commercial banks, are they not?

A. I think when I described commercial banks I described them in the sense of what they do. These two companies do not act as commercial banks act.

Q. I am addressing the question to the only two unique characteristics, not everything that commercial banks do in common with other institutions, but the only two unique characteristics on which you dwelt very considerably yesterday or the day before.

A. On these specific two characteristics, these two corporations do not act as commercial banks act.

[fol. 2518] Q. They don't have what?

A. They do not act as commercial banks typically act.

Q. I asked you whether they had the authority to do so.

A. I said yes, they do.

Q. All right.

So that they are potential competitors of every commercial bank in the City of Philadelphia, are they not?

A. I believe I so stated yesterday.

Q. All right, but still you left them out of this comparison that you made or on these sheets of Exhibit G-185 for Concentration of Philadelphia Bank Assets at Various Periods from 1940 to 1960?

A. I gave my reasons yesterday. I will repeat them, if you like.

Q. There is no necessity for that.

Is Brown Brothers likewise able to receive demand deposits and create credit in the same manner as commercial banks?

A. Yes.

Q. Now, on another page which is headed, "Concentration of Philadelphia Bank Assets 1940,"——

A. Yes?

[fol. 2519] Q. —the six largest banks are listed and then a number of others?

A. Yes.

Q. On the page headed "Concentration of Philadelphia Bank Assets 1945," the six largest banks are listed and likewise some others?

A. Yes.

Q. What was the change that took place between 1940 and 1945 that, in your opinion, was significant?

A. I can't stop to count, but there was a reduction, I believe, in the number of banks which would be a significant factor; and in addition there is evidently a growth in the middle section, a growth in the relative strength of the middle section, probably accompanying the reduction in the number of banks.

Q. Then that is merely an arithmetical change.

Was there any other change that you consider significant?

A. We are examining 1945 relative to 1940?

Q. Yes, sir.

A. I would have to refer to the relative degree of competition within each size group. I have a chart on this.

I tried to analyze this and one of the points that I think [fol. 2520] is significant in analyzing the number of banks and the relative concentration of assets in banks is also to consider the relative competition at each level of bank size; so without taking the time now to make such a table, I will refer to the one which I have prepared and I think I can make that statement as well.

Let me get my——

Q. Now, that likewise is merely an arithmetical fact, is it not?

A. Well, all figures are arithmetic. It's what you use them for.

Q. What does it show beyond mere volume of assets or volume of loans or amount of loans or amount of deposits?

A. This information is here so that one who wanted to see how I drew my conclusions could see it. In other words, I fundamentally used this to make the concluding table which I addressed myself to. This is the data, so that anyone else could see how I arrived at my conclusion and consider it.

Now I will have to get my other chart so that I can draw off the conclusions that I drew from these figures. [fol. 2521] These are my source, in essence, for my conclusions.

Let me get my tables.

Among others, there are two significant conclusions that one draws——

Q. I am not asking you for your conclusions. I am asking for factual differences that existed between 1940 and 1945.

A. I must get my other table or take the time now to make it anew. I introduced it yesterday, so it's already prepared.

If you will give me a moment I will address myself to these two periods.

Do you have the exhibit which we introduced yesterday showing the competition at various size levels over the years?

By Mr. Reycraft:

Q. G-183?

A. G-183.

By Mr. Price:

Q. What does G-183 show?

A. G-183 shows the number of changes in the number of banks with head offices in Philadelphia by size of banks from 1940 to 1960, and it is based upon the data—upon [fol. 2522] my analysis of this data that you wish me now to address myself to. In 19——

Q. Let's stick to 1940 and 1945 for the moment.

A. Yes, sir.

Q. We will come to 1960 later.

In 1940 and 1945—in 1940 the total number of banks was 24—no, was 45, and with the relative sizes I have shown and the relative degree of concentration as shown in the top six banks.

Q. What concentration is shown on G-183? Concentration of what?

A. G-183 shows competition by size of bank and how it changed over the years.

It is based upon the information in this table and if you wish me to analyze the changes from 1940 to 1945, which I would like to do, I must—these are part of the conclusions that I drew of these changes.

Q. Then you are correcting your statement that you first made that G-183 shows concentration?

A. Concentration is shown in G-185.

Q. All right.

Then G-183 does not show concentration, is that so?

A. G-183 shows relative competition within groups, with [fol. 2523] in five groups of banks.

Q. Do you understand that to be concentration or don't you?

A. (No response.)

Q. I am simply trying to find out what you mean by the terms you use. A few moments ago you said G-183 showed concentration and I am asking you now, do you mean it or don't you?

A. Well, I suppose—I could use the term "concentration" in G-183 to reflect the concentration of banks within any one size level.

Q. And that is what you mean by the term "concentration," is it?

A. No. I——

Q. Well, then, why do you apply it to G-183?

A. (No response.)

Q. If that isn't what G-183 shows?

A. G-183 shows changes in the number of banks competing at various size levels in Philadelphia from 1940 to 1960.

One could also use it to interpret concentration, but it would be a poor interpreter of concentration.

A much better interpreter of concentration is G-185. If I were to interpret concentration I would use G-185, which I used (G-185) for that purpose.

Q. Will you please answer yes or no—does G-183 show concentration?

[fol. 2524] A. I don't think so.

Q. All right.

Now, does it show competition?

A. Yes, I think so.

Q. How?

A. It shows competition by indicating the competing units by size level.

Q. That is simply an arithmetical list showing the number of banks of different sizes, is it not?

A. Yes.

Q. And it shows that between 1940 and 1945 there was a difference in the total number of two, does it not?

A. Yes.

Q. And that twelve of those in the zero-$10,000,000 bracket increased in size to the $10,000,000 to $100,000,000 bracket, did they not?

A. Yes.

Q. And that the next bracket increased in size by two?

A. Yes.

Q. And that a new bank arrived in the bracket of $300,000,000 to $600,000,000?

A. Yes.

Q. And in the $600,000,000 and over the number remained at one?

[fol. 2525] A. Yes.

Q. So that there was only a change of two in the total number?

A. That is one of the changes shown in this table.

Q. What other change is shown in that table aside from the fact that smaller banks grew bigger?

A. Well, I would interpret the table to indicate that the number of small banks, as measured in size of zero to $10,000,000 in total assets dropped in half from 1940 to 1945, and that the number of banks from $10,000,000 to $100,000,000 increased substantially, perhaps by 50 per cent; that the number of banks in the $100,000,000 to $300,000,000 increased; and that the competitive position in general, the general tone, I would suggest, of competition in Philadelphia from 1940 to 1945 was probably increased as shown in this—without a closer examination to actually get the real thing, one would have to make a specific examination of those two periods, but that is what these figures indicate.

Q. That it increased, did you say?

A. I say that the tone of competition—it appears that the tone of competition may have actually increased.

Q. Now, what effect, if any, did that have on borrowers? Have you any information on that subject?

A. I did not study 1945 versus 1940.

Q. Have you any information as to what effect, if any, [fol. 2526] it had on depositors?

A. I have no information.

Q. Have you any information as to what effect that had on the total business community?

A. I have no information.

Q. Have you any information as to whether or not borrowers or businessmen during that period had all of their financial and banking needs supplied or not?

A. No.

Q. I ask you the same questions with reference to the changes shown between 1945 and 1950 on the two corresponding sheets of this G-185.

A. 1945 to 1950?

Q. This is comparing 1945 with 1950.

A. Yes.

Q. Have you any more information aside from the number of banks and the amount of their resources than you had in respect of the banks that existed in 1940 as compared with those in 1945?

A. I have no other information on 1950, other than is in the tables.

Q. I am sorry, I can't hear you.

A. I have no information on 1950 other than is in the tables.

Q. And the same question with reference to 1950 and 1955?

[fol. 2527] A. I have some information on 1955 other than what is in this table.

Q. On the subjects which I asked you about for 1940 to 1955 or something else?

A. You will have to read that question to me.

Q. Well, if you can tell us what the information is, we can readily see whether it is within the scope of those questions or not.

A. I must have the questions in order to answer them.

Mr. Reycraft: Will you read the question, please?

(The testimony was repeated by the reporter as follows:

"Q. And the same question with reference to 1950 and 1955

"A. I have some information on 1955 other than what is in this table.

"Q. On the subjects which I asked you about for 1940 to 1955 or something else?

"A. You will have to read that question to me.")

Mr. Reycraft: Will you tell him what you asked him about 1940 and 1945?

Mr. Price: I will ask the reporter to go back and read all the questions and all the answers, if you want.

[fol. 2528] Mr. Reycraft: You had better ask him the questions.

By Mr. Price:

Q. Don't you remember, Doctor, what I asked you about between 1940 and 1945 with reference to change, if any, in the availability of credit, the conditions of borrowers, the rates of interest, and so on?

Don't you remember any of that?

A. Mr. Price, I am trying to answer your questions as well as I can, and in order to give you an answer I must

know specifically what subjects you wish me to address myself to.

I have so much information here that I can not remember precisely what you said, but I'd be delighted to answer, if you will just tell me specifically what you want me to answer.

Effects on depositors.

Mr. Reycraft: What about the effects on depositors? What do you want to know?

By Mr. Price:

Q. Was there any effect on depositors?

A. I do not know whether there was any effect on depositors.

Q. Any effect on borrowers?

A. I have no information as to the effect on borrowers.

Q. Any effect on the rates of interest charged during that [fol. 2529] period?

A. I have no information on the effect on the rates of interest charged.

Q. Any information on the total effect on the business community?

A. Yes. I have some information on the community for 1955, because there was a study made of 1955 of the Third Federal Reserve District; so, there is some information available in 1955.

Q. What was the effect on the business community as a result of the change in the number of banks as shown on these two pages of your Exhibit 185?

A. I have no information as to that effect.

Q. And any effect on the availability of credit or of loans for those who wished them during that period?

A. Not as a result of the change in the competitive situation. I have no information on that.

Q. And any effect on the ability of one bank to get business from another?

A. No. I have no information on that.

Q. Have you any such information in respect to the changes between 1955 and 1960?

A. No, if your question is directed to the changes on these attributes which resulted as a change in the number

[fol. 2530] and the character of the banks between 1955 and 1960.

Q. Then the only information that you have is quantitative, is it not?

A. The information on these characteristics that I have in front of me is completely quantitative.

Q. Have you any information other than quantitative information with respect to the banks and their changed positions?

A. Yes.

Q. Between 1945 and 1960?

A. Yes.

Q. What?

A. I have the results, qualitative statements, which are included in two studies made of this area which I have looked at—one by Mr. John Sienkiewicz and one called the Keith report. These both include some qualitative observations. The Sienkiewicz report indicates the results of conversations with people in the area, and the Keith report has some qualitative overtones.

In addition I have some qualitative statements that appeared occasionally in the monthly reviews of the Federal Reserve Bank in Philadelphia; but primarily my analysis is directed to those quantitative data.

Q. And during these years 1945 to 1960, can you tell me whether these changes in the number and size of the banks [fol. 2531] had any effect on interest rates?

A. I have no information on this, other than to suggest that my studies——

Q. If you have no information, that is all I asked you about, Doctor. I didn't ask you to guess on it.

A. I have no information on Philadelphia specifically. I have information which relates to a result on interest rates as a result of concentration, but not as it affects Philadelphia.

Q. Now, Doctor, will you pretend that you are a banker. I understand that you are not, but try to pretend that you are one and tell me what you would do in order to control interest rates in Philadelphia.

A. Well, if I wanted to affect the interest-rate level in Philadelphia I would address myself to getting as large a control as I possibly could over bank resources in Phila-

delphia, and all of this reduces the bank resources that are in the hands of others.

Q. What would you do yourself to control interest rates? How would you exercise the control?

A. Once I had achieved the position of having a control of as large a proportion of the available banking resources in Philadelphia, I would simply charge the highest rate that I could get away with, in essence, the highest rate that [fol. 2532] the traffic would bear, since the degree of competition would be such that I would not have to charge as low a rate as would be commensurate with a relatively small profit.

Q. And how many of the resources would you have to had in order to be able to dictate the interest rates for borrowers in Philadelphia, considering all the sources from which people can borrow in Philadelphia?

A. I would——

Q. Not just commercial banks, but all sources.

A. Yes.

If I were a banker in Philadelphia I would realize that I fundamentally merchandise and differentiate markets, and if I were a banker in Philadelphia and I would try probably to be a good banker in Philadelphia and try probably to make as large a profit as I could for my stockholders who pay my salary.

That being the case, I would consider each market separately and charge within each market an interest rate which would give me the maximum return.

Q. Can you say what volume of resources you would have to have in all of these various markets that you now study in order to achieve the result of being able to charge as high as interest rate as you wanted without regard to competition?

A. A perfect monopoly of banking resources would be [fol. 2533] impossible.

Q. Anywhere or just in Philadelphia?

A. Well, under our present law, a perfect monopoly would not be possible. Therefore I would——

Q. Anywhere or just in Philadelphia?

A. Perfect monopoly anywhere in the United States——

Q. All right.

A. —would not be possible——

Q. Go ahead.

A. —under our present laws.

Therefore, I would always be operating at my best in an oligopolistic situation where there would be a few competitors, and, therefore, I would have to consider that I might not be able to get the highest possible return, but I could cheerfully anticipate getting a much higher return than I could under competition because my competitors in an oligopolistic situation would also wish to achieve a maximum return.

Q. What would the concentration of assets have to be to enable you to control the interest rates in the particular fields you were operating in in Philadelphia?

A. (No response.)

Q. Bearing in mind all the other sources from which people might borrow money in Philadelphia.

[fol. 2534] A. If I were a banker, I would again have to address myself to the specific market that I wished to maximize my return, and there is no specific percentage that by degrees would indicate how I could raise my profit ratio.

I could anticipate that the higher my concentration, the greater would be my ability to achieve a maximum return.

Q. That is a matter of opinion. Have you had any personal experience in that line?

A. I have not been a banker, but as an economist I have studied competition, monopoly and oligopolistic competition, and the power to affect price and to affect supply can, in most instances, be so used as to maximize one's return relative to the return under competition.

Q. Have you any information to indicate that any of the mergers that have taken place in Philadelphia since 1945 have allowed any of the merging banks to increase their interest rates over what they charged before?

A. No.

Q. Have you any information to indicate how it would be possible for any bank, however large, to prevent some other bank from receiving deposits or making loans?

A. Yes.

Q. What?

[fol. 2535] A. I have information which indicates the power of banks in certain concentrated areas in the United

States to materially increase their return as measured by interest rates relative to areas where degree of concentration is substantially less.

Mr. Price: That doesn't answer my question, Doctor. Will you please read him the question?

(The testimony was repeated by the reporter as follows:

"Q. Have you any information to indicate how it would be possible for any bank, however large, to prevent some other bank from receiving deposits or making loans?

"A. Yes.

"Q. What?")

The Witness: Well, I thought I was being responsive, Mr. Price.

Mr. Price: I can't hear your answer.

The Witness: I thought I was being responsive.

By Mr. Price:

Q. Will you try again, please, because I didn't think so.

A. Well, I have information——

The Court: Are you limiting your question to Philadelphia?

[fol. 2536] Mr. Price: Yes, sir.

The Court: All right.

The Witness: In Philadelphia?

The Court: I think that was the problem there. He started across country, and you are trying to keep him around the city.

Mr. Price: I would like to bring him back to Philadelphia.

The Witness: In Philadelphia, I have no information.

By Mr. Price:

Q. Then you have no information which would indicate that this particular merger, making a larger bank out of two smaller banks, would enable the larger bank to prevent any other bank in Philadelphia from receiving deposits or making loans, have you?

A. No.

Q. And you have no information which would indicate that such a bank merged, as these two propose to do, would have any power to increase interest rates in Philadelphia, have you?

A. Yes, I do.

Q. What?

A. I have looked at the material produced from the banks and in a number of instances there is specific refer- [fol. 2537] erence to the fact that once the two banks are combined it will be possible to get higher interest rates.

Q. I am not speaking about getting higher interest rates, but imposing higher interest rates on borrowers in Philadelphia who didn't want to deal with that bank.

A. You will have to——

Mr. Reycraft: Will you mark as Government's Exhibit No. 194 a two-page memorandum dated February 20, 1961, from Robert B. Lowry to Henry Satterfield, The Philadelphia National Bank.

(Two-page memorandum, The Philadelphia National Bank, Robert B. Lowry to Henry Satterfield, dated February 20, 1961, was marked Exhibit G-194 for identification.)

The Court: Gentlemen, I think it is getting near quitting time. We will continue tomorrow morning at 10 o'clock.

(Recess taken at 4:12 o'clock P. M. until 10:00 o'clock A. M. on Friday, June 23, 1961.)

[fol. 2538] Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 7-A a table headed "Table 7-A, Analysis of Deposits of Philadelphia National Bank, Girard Trust Corn Exchange Bank and All Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery & Bucks Counties, Pennsylvania, as of June 15, 1960."

The last column of Government's Exhibit 7-A is the total for all commercial banks with head offices in Philadelphia, Delaware, Montgomery, and Bucks Counties; that is, the column shows the distribution of deposits for all

banks with head offices in the four counties—in the last column.

The banks included in the last column are those listed on Table 7, as indicated by the footnote at the bottom of the page.

(Document headed "Table 7A, Analysis of Deposits of Philadelphia National Bank, Girard Trust Corn Exchange Bank and All Commercial Banks with Head Offices in Philadelphia, Delaware, Montgomery & Bucks Counties, Pennsylvania, as of June 15, 1960," was marked Exhibit G7-A for identification.)

[fol. 2539] Will you mark for identification as Government's Exhibit No. 195 a one-page document headed "Proportion of Demand Deposit Accounts Under $10,000 of Philadelphia National Bank and Girard Trust Corn Exchange Bank Originating in Philadelphia, Bucks, Delaware, and Montgomery Counties as of April and May 1961."

(Document headed "Proportion of Demand Deposit Accounts Under $10,000 of Philadelphia National Bank and Girard Trust Corn Exchange Bank Originating in Philadelphia, Bucks, Delaware and Montgomery Counties as of April and May 1961" was marked Exhibit G-195 for identification.)

Will you mark for identification as Government's Exhibit No. 196 a one-page document headed "Concentration of Deposits Loans and Capital Funds of Commercial Banks in Philadelphia, Bucks, Delaware and Montgomery Counties As Shown by Relative Size of Six Largest Banks and Effect of Proposed Consolidation of Philadelphia National Bank and Girard Trust Corn Exchange Bank on Such Concentration as of October 3, 1960."

(Document entitled "Concentration of Deposits Loans and Capital Funds of Commercial Banks in Philadelphia, [fol. 2540] Bucks, Delaware and Montgomery Counties as Shown by Relative Size of Six Largest Banks and Effect of Proposed Consolidation of Philadelphia National Bank and Girard Trust Corn Exchange Bank on Such Concentration as of October 3, 1960," was marked Exhibit G-196 for identification.)

Will you mark for identification as Government's Exhibit 197 a one-page document headed "Comparison of Growth by Acquisitions With Other Growth of Philadelphia National Bank and Girard Trust Company"—which is Girard Trust Corn Exchange Bank—"December 31, 1949 to December 31, 1959."

Mr. Brennan: Excuse me. Did you read the full title of G-197?

Mr. Reycraft: I did, and I indicated it should be Girard Trust Corn Exchange Bank.

I would like to explain the title further. Since the exhibit starts in 1949, the name of what is now the Girard Trust Corn Exchange Bank changed, and therefore the phrase "Girard Trust Company" is intended to include the bank by its various names.

Will you mark as Government's Exhibit 198 a one-page document headed "Percentage Analysis of Growth of [fol. 2541] Philadelphia National Bank and Girard Trust Company, December 31, 1949 to December 31, 1959."

(Document entitled "Percentage Analysis of Growth of Philadelphia National Bank and Girard Trust Company, December 31, 1949 to December 31, 1959," was marked Exhibit G-198 for identification.)

Will you mark as Government's Exhibit 199 a one-page document, "Answer of Girard Trust Corn Exchange Bank to Questions 4 and 5 Submitted by Plaintiff."

(One-page document entitled "Answer of Girard Trust Corn Exchange Bank to Questions 4 and 5 Submitted by Plaintiff," was marked Exhibit G-199 for identification.)

Will you mark as Government's Exhibit No. 200 an eight-page document headed "Quest[illegible]" and the information is the answer of the Girard T[illegible] Corn Exchange Bank to Question No. 6 propounded by the Government.

(Eight-page document headed "Question 6" was marked Exhibit G-200 for identification.)

Will you mark for identification as Government's Exhibit 201 a two-page document. On the first page the [fol. 2542] heading is "Deposit Balances With Girard of 26 Corporations (All Demand Deposits, and Listed to

the Nearest $1000)" and the second page of the exhibit is headed "Answer of Girard Trust Corn Exchange Bank to Question 10 Submitted by Plaintiff."

The first page of Government's Exhibit 201 is Girard Trust Corn Exchange Bank's answer to Government's Question No. 9.

(Two-page document, the first page headed "Deposit Balances with Girard of 26 Corporations (All Demand Deposits, and Listed to the Nearest $1000)" and the second page headed "Answer of Girard Trust Corn Exchange Bank to Question 10 Submitted By Plaintiff" was marked Exhibit G-201 for identification.)

Mr. Blenko: Does the record show that those are excerpts from the answers you received from Girard?

Mr. Reycraft: Page 2 of Government's Exhibit No. 201 is an excerpt from the letter which is indicated on the exhibit and is the complete answer to Question 10 given by the Girard Trust Corn Exchange Bank.

Mr. Brennan: I understand that any prior comments or [fol. 2543] rulings by the Court about confidentiality will of course apply to the first page of 201.

Mr. Reycraft: We are agreeable, as I have indicated previously, to your substituting an exhibit with the names of borrowers deleted, except in those cases where we make a specific request— —

Mr. Brennan: We have no objection to having it marked so long as it is understood it is within the coverage of the Court's prior comments.

Mr. Blenko: In other words, this will not be disclosed except with leave of this Court.

Mr. Reycraft: Whatever the prior rulings are apply.

Will you mark as Government's Exhibit No. 202 a 15-page document which is the answer of the Philadelphia National Bank to Question 14 of questions propounded by plaintiff.

(15-page document headed "Answer of The Philadelphia National Bank to Question 14 of Questions Propounded By Plaintiff" was marked Exhibit G-202 for identification.)

Will you mark as Government's Exhibit No. 203 a two-page memorandum from S. S. Gardner to Mr. George H. Brown, Jr., dated August 4, 1959.

[fol. 2544] (Two-page memorandum from Mr. S. S. Gardner to Mr. George H. Brown, Jr., dated August 4, 1959, was marked Exhibit G-203 for identification.)

[fol. 2545] Mr. Reycraft: Will you mark as Government's Exhibit No. 204 a two-page memorandum dated November 17, 1959 from R. C. Allen; the subject matter is 69th Street Terminal Lease, Branch Banking Board Hearings.

(Two-page memorandum dated November 17, 1959, from R. C. Allen Re: 69th Street Terminal Lease, Branch Banking Board Hearings was marked Exhibit G-204 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 205 a two-page memorandum dated December 3, 1959, from 3rd & Arch Street Office to Mr. Stephen S. Gardner, vice president, main office.

(Two-page inter-office memorandum dated December 3, 1959, from 3rd & Arch Street Office to Mr. Stephen S. Gardner, vice president, main office, was marked Exhibit G-205 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 206 a five-page document, the first page of which is a memorandum dated July 7, 1960, from Mr. S. S. Gardner to Mr. G. H. Brown, Jr., president, and the second page is a memorandum dated July 7, 1960, which is signed on the fourth page by S. S. Gardner and R. C. Allen; and the last [fol. 2546] page of the exhibit is a memorandum dated June 2, 1960, from S. S. Gardner to G. H. Brown, Jr., and O. H. Beadle.

(Five-page document, consisting of memorandum dated July 7, 1960, from S. S. Gardner to G. H. Brown, Jr., a three-page memorandum from S. S. Gardner and R. C. Allen, dated July 7, 1960, re: Broad Street Trust Application—Drexel Line Shopping Center, and a memorandum dated June 2, 1960, from S. S. Gardner to G. H. Brown, Jr., and O. H. Beadle, was marked Exhibit G-206 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 207 a one-page letter dated July 26, 1960, from Hubert

J. Horan, Jr., Broad Street Trust Company, to Mr. George H. Brown, Jr.

(Letter dated July 26, 1960, from Hubert J. Horan, Jr., to George H. Brown, Jr., was marked Exhibit G-207 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 208 a one-page memorandum dated July 28, 1960, from S. S. Gardner to Branch Administration Files, subject competitive banks' locations—not protested.

[fol. 2547] (Inter-office memorandum dated July 28, 1960, from S. S. Gardner to Branch Administration Files Re: Competitive Banks' Locations—Not Protested, was marked Exhibit G-208 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 209 a one-page memorandum dated July 11, 1960, from R. C. Allen to Branch Administration Files, Subject: Competitive Banks' Branch Sites—Not Protested, P.S.F.S., Media, Delaware County Application.

(Memorandum dated July 11, 1960, from R. C. Allen to Branch Administration Files Re: Competitive Banks' Branch Sites—Not Protested, was marked Exhibit G-209 for identification.)

Mr. Flocken: Will you mark as Government's Exhibit 210 a two-page document, the first page of which is dated November 4, 1960, from William B. Carr, Secretary-Treasurer of the Philadelphia Clearing House Association, to members of the Clearing House Committee with reference to Industrial Trust Company's approval of a branch office at 142 Montgomery Avenue, Bala-Cynwyd, Montgomery County. The second page of the document is an inter-office memorandum signed S. S. Gardner, dated August 4, 1960, to Branch Administration Files on the subject of Competi-[fol. 2548] tive Banks' Branch Locations, reporting a discussion of the Industrial Trusts' application for a branch on Montgomery Avenue in Bala-Cynwyd.

(Letter dated November 4, 1960, William B. Carr, Secretary-Treasurer, the Philadelphia Clearing House Association, to Members of the Clearing House Committee and Members of the Bank Operations Committee, together with

an inter-office memorandum dated August 4, 1960, from S. S. Gardner to Branch Administration Files, Re: Competitive Banks' Branch Locations, was marked Exhibit G-210 for identification.)

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 211 a two-page document, the first page of which is an inter-office memorandum dated November 9, 1960, from S. S. Gardner to Competitive Banks' Branch Locations—Not Protested, Subject: Philadelphia National Bank; the second page of which is a letter from William B. Carr, Secretary-Treasurer of the Philadelphia Clearing House Association dated September 29, 1960.

(Inter-office memorandum dated November 9, 1960, from S. S. Gardner to Competitive Banks' Branch Locations—Not Protested, Re: Philadelphia National Bank, together [fol. 2549] with letter dated September 29, 1960, from William B. Carr, Secretary-Treasurer, the Philadelphia Clearing House Association, to members of the Clearing House Committee and members of the Bank Operations Committee, was marked Exhibit G-211 for identification.)

Mr. Reycraft: Will you please mark as Government's Exhibit No. 212 a one-page letter dated March 16, 1961, from William B. Carr, Secretary-Treasurer, Philadelphia Clearing House Association, to Members of the Clearing House Committee and Members of the Bank Operations Committee.

(Letter dated March 16, 1961, from William B. Carr, Secretary-Treasurer, the Philadelphia Clearing House Association, to Members of the Clearing House Committee and Members of the Bank Operations Committee was marked Exhibit G-212 for identification.)

Mr. Reycraft: Will you please mark as Government's Exhibit No. 213 a one-page letter from William B. Carr, Secretary-Treasurer, the Philadelphia Clearing House Association, dated October 19, 1960, to Members of the Clearing House Committee and Members of the Bank Opera- [fol. 2550] tions Committee.

(Letter dated October 19, 1960, from William B. Carr, Secretary-Treasurer, the Philadelphia Clearing House As-

sociation, to members of the Clearing House Committee and Members of the Bank Operations Committee was marked Exhibit G-213 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 214 a one-page memorandum from S. S. Gardner to Competitive Bank Sites, dated November 22, 1960.

(Memorandum dated November 22, 1960, from S. S. Gardner to Competitive Bank Sites was marked Exhibit G-214 for identification.)

Mr. Reycraft: Will you mark a- Government's Exhibit No. 215 a two-page exhibit, the first page of which is a memorandum dated December 19, 1960, from S. S. Gardner, to Mr. G. H. Brown, Jr., and Mr. O. H. Beadle; and the second page of which is a memorandum dated December 19, 1960, from S. S. Gardner, subject Competitive Bank Sites—Not Protested.

(Memorandum dated December 19, 1960, from S. S. [fol. 2551] Gardner, to Mr. G. H. Brown, Jr., and Mr. O. H. Beadle, together with memorandum dated December 19, 1960, from S. S. Gardner, to Branch Administration Files, re: Competitive Bank Sites—Not Protested, was marked Exhibit G-215 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 216 a one-page memorandum dated January 5, 1961, from G. H. Brown, Jr., to Mr. S. Gardner, subject Stenton Avenue.

(Inter-office memorandum dated January 5, 1961, from G. H. Brown, Jr., to Mr. S. S. Gardner, re: Stenton Avenue, was marked Exhibit G-216 for identification.)

[fol. 2552] Mr. Reycraft: Will you mark as Government's Exhibit 217 a one-page memorandum dated January 10, 1961, from S. S. Gardner to Mr. George H. Brown, Jr., subject: Proposed Broad Street Trust Branch, Stenton Avenue near Washington Lane.

(Memorandum dated January 10, 1961, from S. S. Gardner to Mr. George H. Brown, Jr., re: Proposed Broad Street Trust Branch, Stenton Avenue near Washington Lane, was marked Exhibit G-217 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 218 a one-page memorandum dated January 12, 1961, from S. S. Gardner, subject: Bank of Old York Road Application for a Branch at the Intersection of Routes 309 and 202 Montgomeryville, Montgomery County, to: Competitive Bank Sites—Not Protested—File.

(Memorandum dated January 12, 1961, from S. S. Gardner to Competitive Bank Sites—Not Protested—File, Bank of Old York Road Application for a Branch at the Intersection of Routes 309 and 202—Montgomeryville, Montgomery County, was marked Exhibit G-218 for identification.)

Mr. Reycraft: Will you please mark as Government's Exhibit No. 219 a one-page letter from William B. Carr, Secretary-Treasurer, The Philadelphia Clearing House Association, dated February 15, 1961, to: Members of the [fol. 2553] Clearing House Committee and Members of the Bank Operations Committee.

(Letter dated February 15, 1961, from William B. Carr, Secretary-Treasurer, The Philadelphia Clearing House Association, to: Members of the Clearing House Committee and Members of the Bank Operations Committee, was marked Exhibit G-219 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 220 a two-page memorandum dated December 15, 1959, from R. C. Allen to Mr. S. S. Gardner, Vice-President, subject: Beneficial Savings at Lawrence Park.

(Two-page memorandum dated December 15, 1959, from Robert C. Allen to Mr. S. S. Gardner, re: Beneficial Savings at Lawrence Park, was marked Exhibit G-220 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 221 a five-page exhibit, the first page of which is a memorandum dated December 9, 1959, from S. S. Gardner to Mr. G. H. Brown, Jr., President, subject: Beneficial Mutual Savings Bank Application at Lawrence Park; the attachments consisting of a memorandum dated November 18, 1959, from Robert C. Allen and three pages of handwritten notes.

(Documents of five pages, consisting of memorandum dated December 9, 1959, from S. S. Gardner to Mr. G. H. Brown, Jr., President, re: Beneficial Mutual Savings Bank [fol. 2554] Application at Lawrence Park, memorandum dated November 18, 1959, from Robert C. Allen, and three pages of handwritten notes, was marked Exhibit G-221 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 222 a one-page memorandum dated March 2, 1960, from S. S. Gardner to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, subject: Beneficial Mutual Savings Fund Branch in Lawrence Park.

(Inter-office memorandum dated March 2, 1960, from S. S. Gardner to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, re; Beneficial Mutual Savings Fund Branch in Lawrence Park, was marked Exhibit G-222 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 223 a two-page exhibit, the first page of which is a letter dated March 20, 1959, from Geoffrey S. Smith to Mr. Stanley H. Heist, President, Saving Fund Society of Germantown; the second page of which is a letter from Mr. Stanley H. Heist to Mr. Geoffrey S. Smith dated March 18, 1959.

(Letter dated March 20, 1959, from Geoffrey S. Smith to Mr. Stanley H. Heist, President, and letter dated March 18, 1959, from Stanley H. Heist to Mr. Geoffrey S. Smith, President, were marked as Exhibit G-223 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 224 a two-page memorandum from S. S. Gardner to [fol. 2555] Mr. Geoffrey S. Smith, President, dated April 7, 1959, re: Saving Fund Society of Germantown Proposed Wynnewood Location.

(Two-page memorandum dated April 7, 1959, from S. S. Gardner to Mr. Geoffrey S. Smith, President, re: Saving Fund Society of Germantown Proposed Wynnewood Location, was marked Exhibit G-224 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 225 a two-page exhibit, the first page of which is a memorandum dated April 8, 1959, from S. S. Gardner to

Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, and the second page of which is headed "Advertising Division Diary," May 1, 1959.

(Inter-office memorandum dated April 8, 1959, from S. S. Gardner to Mr. G. H. Brown, Jr. and Mr. O. H. Beadle, re: Saving Fund Society of Germantown Proposed Wynnewood Location, and a sheet headed "Advertising Division Diary," dated May 1, 1959, were marked Exhibit G-225 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 226 a memorandum dated January 15, 1960, from S. S. Gardner to Competitive Banks Location—Not Protested File, subject: Savings Fund Society of Germantown Wynnewood Shopping Center Branch.

(Memorandum dated January 15, 1960, from S. S. [fol. 2556] Gardner to Competitive Banks' Branch Locations—Not Protested File, re: Savings Fund Society of Germantown Wynnewood Shopping Center Branch, was marked Exhibit G-226 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit No. 227 a one-page memorandum dated December 4, 1959, from R. C. Allen to Competitive Banks' Site—Not Protested, subject: Community Federal Savings & Loan—New Office State & Sproul Roads.

(Memorandum dated December 4, 1959, from R. C. Allen to Competitive Banks' Site—Not Protested, re: Community Federal Saving & Loan—New Office State & Sproul Roads, was marked Exhibit G-227 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 228 a three-page memorandum from R. F. McCannon to Mr. George H. Brown, Jr., dated March 23, 1961.

(Three-page memorandum from R. F. McCannon to Mr. George H. Brown, Jr., re: Operating Department Merger Projects, was marked Exhibit G-228 for identification.)

Mr. Reycraft: Will you mark as Government's Exhibit 229 a four-page document, the first page of which is a covering memorandum from Credit Authority Committee

to Mr. H. W. Ritter, dated January 16, 1961, to which is attached three pages of information relating to Credit Authority.

(Four-page document, consisting of memorandum dated [fols. 2557-2563] January 16, 1961, from Credit Authority Committee to Mr. H. W. Ritter, re: Credit Authority for Phila. Girard National Bank & Trust Co., together with three sheets pertaining to Credit Authority, was marked Exhibit G-229 for identification.)

Mr. Reycraft: I have a statement to make.

Government's Exhibit No. 61 is the oral deposition of George H. Brown, Jr., which was taken on April 20, 1961, and consists of two separate transcripts, one of the morning session and one of the afternoon session.

I would like to substitute for the copy which is now in the record the copy with corrections signed and sworn to by Mr. Brown.

(Two volumes of deposition of George H. Brown, Jr. taken on April 20, 1961, sworn and subscribed to by Mr. Brown, were substituted for original Exhibit G-61 and were marked Exhibit G-61(S) for identification.)

Mr. Reycraft: With reference to Government's Exhibit 191, I am informed by counsel that on the second page the figures after Elkins Park National Bank, which are "12," are transposed, and that the correct figure is "21." And if there is no objection I would ask the reporter to make the change in ink on the exhibit which is in evidence.

(Concluded at 5:12 o'clock P. M.)

[fols. 2564-2565] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

FOURTEENTH DAY

Philadelphia, Pa., June 23, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2566] Mr. Littleton: If Your Honor please, before Mr. Price resumes the examination of the doctor, you will recall there was a trial subpoena served on Philadelphia National Bank to produce certain additional data in connection with the answer to Government's Question 6 propounded before the trial began, because the Government contended that what we had handed them did not contain all the information they desired to have. This had to do with lines of credit of certain customers of Philadelphia National Bank in banks other than Philadelphia National Bank. That material has been assembled, I have it here, and I should like to give it to Mr. Reycraft at this time.

Mr. Reycraft: I would like the opportunity to examine it, Your Honor. Perhaps if I could keep my case open to that extent and it didn't have to be closed, I would like to do that.

The Court: All right.

Proceed, Mr. Price.

OSCAR GOODMAN, resumed.

Cross-examination. (continued)

By Mr. Price:

Q. Doctor, we had gotten to the point yesterday after-
[fol. 2567] noon of my asking you how the merged bank could impose higher interest rates on borrowers in Philadelphia who didn't want to deal with that bank.

Then Mr. Reycraft marked Exhibit No. 194.

(The witness looked through papers.)

A. I address myself to the question of how a reduction of a substantial competitor——

Q. I can't hear you.

A. I address myself to the question of how a reduction of a substantial competitor in a competitive area will enable the remaining competitors to affect price and to affect the supply of bank credit. No. 1——

Q. That is not the question that I asked you, Doctor. I don't want a speech about something that you have been thinking about which has no relation to my question. I am asking you how the merged bank can impose its will, so far as interest rates are concerned, on borrowers who do not wish to to do business with the merged bank.

A. The exhibit which we were to start with last night is G-194, and G-194 is a memorandum from Mr. Robert Lowry, time credit manager of the Philadelphia National Bank. It is addressed to Mr. Henry Satterfield, and it is dated February 20, 1961, and the subject is "Sylvan Pools, Inc., and the discussion—I will read the memo in [fol. 2568] total.

"During 1960 we purchased time paper from Sylvan Pools at the following rates:

0—$3,500—5%
$3,501—$5,000—4½%
$5,001 and over—4%

There was no participating or loss reserve.

"Our competition for this dealer's paper has been with the folks from Girard Trust Corn Exchange Bank.

Mr. Clark and I visited this account early in February with the idea of discussing a possible 'raise in rate' which I felt could be accomplished if and when the merger became a reality, and competition between banks eliminated.

"During our conversations with Messrs. Herman and Ira Silverman, owners of this company, we were informed that Girard Trust had offered the following reduction in rate for the purchase of their paper.

0—$4,000—5%
$4,001—and over—4%

(A rate reduction to a mutual dealer seemed strange at this time, however, this was later verified)

[fol. 2569] "This is a firm offer and it has been accepted by the folks at Sylvan Pools along with the request that we match this offer pending the merger and for 1961.

"Dealer also informed us that Girard Trust purchased their paper originating anywhere in the State of New Jersey, two counties in Delaware, and parts of Maryland. The average balance financed is approximately $4,500.

"Under the circumstances, I recommend the following:

"1. We match the rate reduction

2. We purchase any or all of their New Jersey paper—extend our facilities as an exception here (No conflict with First Camden)

3. We refrain from extending our facilities into Delaware until a study has been made of the requirements set forth in the new law.

4. We refrain from extending our facilities into Maryland and recommend an alert correspondent bank in this state.

"Sylvan Pools, Inc., is today a nationally recognized leader in this industry and one of the finest accounts [fol. 2570] in our dealer portfolio. There is a volume potential here of approximately $500,000 in 1961, and I feel every effort should be extended to maintain and expand a profitable 'PNB-dealer' relationship."

That is the end of the typed memo.

I interpret this to indicate that, in the opinion of the loan officer of the Philadelphia National Bank, they will be able to increase rates, with the elimination of the Girard Corn Exchange Bank from the competitive market.

I address myself to what I have here—my number is GX-236. I don't know whether there is a Government exhibit on this or not.

Q. Before you pass away from G-194, will you read the rest of it.

A. The rest of G-194 is a penciled memorandum dated 2-24-61. It has no person to whom it is addressed, but it says in pencil:

> "I find it 'real hard' to get enthused over this deal. Average deal will run 4500 which means the paper will be going on the books at 4 per cent and in most cases will be set up for five years. This is low for non-[fol. 2571] recourse paper (We don't even go this low on most auto repurchase paper). Gross yield at 4 per cent over five years if $7.42 simple interest. I know that swimming pool paper has been good but even though we can get a volume I'm concerned with the profit. No mention is made of credit life insurance so I assume it's not to be included. I think performance-wise we wouldn't have to be concerned (if good credit judgment is used) but this paper in New Jersey won't generate additional business for our bank. In view of these facts I suggest we decline."

P. P. Strunce, I believe, dated 2-24-61.

This is the additional penciled memo.

Q. Now, referring to the second paragraph on the first page, where there is a reference to Mr. Clark, do you know who Mr. Clark is?

A. No, sir.

Q. And in the last full paragraph at the bottom of the page, before the indented portions, I note reference is made to this paper originating anywhere in the State of New Jersey, two counties in Delaware, and parts of Maryland.

A. Yes.

Q. Do you understand from that that that represents

[fol. 2572] the source of the paper and therefore the extent of the competition so far as the borrower is concerned?

A. I understand from this that this is—in the areas mentioned, the State of New Jersey, two counties in Delaware, and parts of Maryland, this is where Girard purchased their paper. However, I do not know whether they purchased paper in other areas. In other words, they evidently specified that they purchased their paper originating——

> "Dealer also informed us that Girard Trust purchased their paper originating anywhere in the State of New Jersey, two counties in Delaware, and parts of Maryland."

I assume, therefore, that either the paper that is purchased is restricted to this area or this area is specifically mentioned in addition to some other area.

[fol. 2573] Q. What becomes of your four-county area if the limits of competition, in the light of this exhibit, show that so far as Sylvan Pools are concerned the paper originates in New Jersey, two counties in Delaware, and parts of Maryland?

A. My four-county area determination, sir, is based upon that geographic area from which the great majority of all of the customers of the banks, each individual bank and the two banks, originate. My four-county area was based upon a conclusion that 70 to 80 per cent of all of the customers of the banks are originated within that area, and depending upon the individual line of business that was involved, some of the business was done out of the four-county area. For some lines 95 per cent was done within the four-county area. I assume that this is one of that percentage which is done, the business referred to here in New Jersey, Delaware, and Maryland, is part of that business that is done outside of the four-county area.

Q. How does this exhibit indicate that the merged bank would impose its will, so far as rates of interest are concerned, on a borrower who wished to go elsewhere?

A. This indicates that the elimination of a substantial competitor, evidently, in the opinion of a loan officer, gives [fol. 2574] him additional power to affect the price of money

or the rate of interest to a borrower. If he can do it with one borrower, he can do it with other borrowers.

Q. How can he do it with this borrower if he walks across the street to the Pennsylvania Company?

A. I have no information as to how he would be received at the Pennsylvania Company Bank.

Q. In other words, you are uninformed that the Pennsylvania likewise finances Sylvan Pools paper, are you?

A. My investigation of the Pennsylvania Company would be that it is at the present time the largest bank in Philadelphia, and an examination of its Schedule A, of its distribution of its loaning business, as indicated on the call report, indicates to me that it does a very broad and extensive commercial banking business, and that being the case, I have no doubt that the Pennsylvania Company would be interested in this kind of business. Whether it would be interested in this particular borrower, I do not know.

Q. But you don't know, then, that, as a matter of fact, the Pennsylvania Company does today finance Sylvan Pool paper, do you?

A. I do not know.

[fol. 2575] Q. Without knowing that, and without knowing anything more about how Sylvan Pools paper is financed, what makes you think that a rate fixed by the Philadelphia National Bank after the merger would have any effect on any other bank in the City of Philadelphia?

A. I address myself to another memorandum to indicate that a rate fixed by one bank may have substantial influence on prices charged by other banks in Philadelphia.

Q. In Philadelphia?

A. In Philadelphia.

I first address myself to what I call GX-241. I don't know what the Government exhibit number is.

Mr. Reycraft: That is Government's Exhibit No. 116. The number here referred to is the informal number we had been using.

Mr. Price: Exhibit 116.

Mr. Reycraft: Right.

The Witness: This is a discussion among Philadelphia banks of a price to charge for Dun & Bradstreet reports made available to commercial customers. The price of a Dun & Bradstreet report would affect the cost of a bank's

[fol. 2576] doing business, and all costs must be reflected in income charges, and the memorandum goes on as follows:

"As 1952 was the last time that any adjustment was made in our charge to customers for obtaining agency reports, and as our contract price with D & B has increased since then, the writer made a comparison between our costs in 1952 and the present time."

The present time is evidently 1958, because we now consider a comparison of prices in 1952 with 1958, and the statements says:

"Reports under base contracts, $2.25."

That is in 1952.

1958, $3.

Additional reports in 1952, $1.85; in 1958, $2.25.

Total contract costs in 1952, $7,715; in 1958, $11,796.

The number of reports in 1952 was 3400. The number of reports in 1958 was 3500.

The over-all cost per report, $2.27 in 1952, $3.38 in 1958.

I might say that the writer of this report is Edward G. Bentty, and it is dated 6-2-58.

[fol. 2577] By Mr. Price:

Q. May I ask you, before you go any further, whether the report relates in any degree to interest rates charged by anyone.

A. Yes, sir, it does, in my opinion.

Q. Where?

A. It affects the cost, sir. It affects the cost of a bank's doing business and this cost must be reflected in the charge which the banks make.

[fol. 2578] Q. My question is, does the memorandum, the exhibit itself, G-116, refer to interest rates at any point?

A. The memorandum refers to costs, one bank wishing to raise costs, the other bank objecting against raising costs, and costs must affect——

Q. Does the memorandum, the exhibit, refer in terms at any place to interest rates?

A. I do not believe the word "interest"—I will read it.

Q. Can't you answer that question, Doctor?

A. I must read it to be sure.

Q. You have read it before and you know that it doesn't don't you?

A. I read this three weeks ago, sir.

Q. Go ahead. If you have to read it again all the way through to answer that question, do whatever you think is necessary, but I request you to answer my question and not some other question that I didn't ask.

The Court: Don't read it out loud. Read it to yourself.

The Witness: Yes, certainly.

The report does not mention interest rate. The document does not mention interest rate.

By Mr. Price:

Q. Is this related exclusively to total contract costs of [fol. 2579] less than $12,000 and related simply to a matter of what banks were going to pay Dun & Bradstreet for services that they received and whether those costs should be passed on to customers who got copies of those reports from the banks? Wasn't that all the memorandum referred to?

A. I do not believe that, sir.

Q. All right. What's wrong with it?

A. It also relates to a question of profit on the reports. It is not merely a passing-on of costs. There is a discussion here of profit on the charge.

Q. Profit on the sale of copies of Dun & Bradstreet reports, isn't it?

A. Yes, sir.

Q. Now, have you any other basis for your statement that the merged bank might impose its rates of interest on borrowers who didn't want to deal with that bank?

A. Yes, sir.

Q. Go ahead. Tell us whatever else you have.

A. My next document I refer to in my notes as GX-228.

Mr. Reycraft: That is Government's Exhibit 132.

The Witness: This is a document dated November 30, 1960. It is from Richard——

Mr. Price: Will you excuse me a moment until I [fol. 2580] find it?

The Witness: Yes, sir.

Mr. Price: All right. I have it now.

The Witness: This is a document from Richard L. Cotter, assistant cashier. The subject is: Mutual Accounts—Girard Corn and PNB. And it says:

> "The attached memorandum from E. L. Worstall is self-explanatory. If you have any questions, however, please contact the Retail Division. Many thanks."

But what this document discusses is the mutual accounts in the two banks. There are customers—I have a number of them listed here. If you like, I will read them—who maintain mutual accounts in both banks, and it says let's contact these customers and try——

By Mr. Price:

Q. Where does it say that? What are you reading from now?

A. Well, I hoped that I wouldn't have to read the whole thing, but if you like, I shall read the whole thing.

Q. After yesterday I don't trust your memoranda of references to papers.

Will you please read the original?

The Court: Page 3 of the exhibit.

The Witness: I say that I have not read any memorandum any differently than it was in the original.

[fol. 2581] "Attached is a list of mutual accounts maintained with Girard-Corn and PNB. The N indicates Our Balances; the S indicates Theirs.

"Will you kindly review this quickly and take from it the names that fall into your Division. It would seem the part of good judgment now for us to contact the customers who have mutual relations in an effort to retain all balances in the merged institution. There is no doubt that our competitors will make every effort to obtain deposits from our mutual customers.

"In cases where our customers feel that they should like to make a new connection, please be sure to use the argument that, they should defer taking any action until the merger is definitely approved."

By Mr. Price:

Q. How does that indicate that the merged bank will be able to impose its will with reference to interest rates on other banks or borrowers who do not wish to deal with the merged bank?

A. I interpret this to mean that customers feel, customers such as those listed here, that in maintaining mutual accounts, by having the possibility of playing one bank against another, they have an opportunity to get better rates and better charges in all of this business and [fol. 2582] I——

Q. Does this memorandum refer at any point to interest rates?

A. No, sir.

Q. It refers entirely to demand-deposit balances, doesn't it?

A. Yes, sir.

Q. And the concern expressed by the writer of the memorandum was that the deposit balance would go to some other bank rather than stay with the merged bank, wasn't it?

A. That was the concern of the writer; yes, sir.

Q. And he was trying to keep the deposits in the merged bank against the freedom of action which the depositor might exercise of taking it elsewhere; isn't that all the memorandum relates to?

A. Yes, sir.

Q. All right.

Have you anything else which you think indicates that the merged bank might be able to impose its will on other banks and borrowers who did not wish to deal with it?

A. Yes, sir.

Q. What else have you got?

A. I now address myself to what I call GX-236.

Mr. Reycraft: Just a moment, please.

[fol. 2583] That is Government's Exhibit 115 and that is what you have, I believe.

The Court: Did you say 115?

Mr. Reycraft: 115, Your Honor, which is the one that he has been referring to.

The Court: 115?

The Witness: All right. GX-236——

Mr. Price: May I ask the exhibit number? Is there an exhibit number?

Mr. Reycraft: That is 115 and that is the same exhibit that he has been referring to, that he has before him.

Mr. Price: 115?

Mr. Reycraft: 115.

There are also some attachments to that exhibit, which have been marked separately, which I will hand you in a moment, Doctor.

The Witness: I am referring to what I will call GX-116.

Mr. Reycraft: I have handed the witness Government Exhibits 137 and 137-B, which were attachments to what is now in evidence as Government's Exhibit 115.

Mr. Price: 137 and 137-B?

Mr. Reycraft: Yes, sir.

The Court: 115 is Exhibit "I," Survey of Branch Area [fol. 2584] Competition?

Mr. Reycraft: That's right, Your Honor.

The Court: This has several sheets attached to it. Are there additional attachments?

Mr. Reycraft: Our notes indicate that G-115 was one of the exhibits attached to a report to Mr. Potts, which is Government's Exhibit 137-A, and that 137-B was also attached to the same report to Mr. Potts.

The Court: Wait until I check. 137-A?

Mr. Reycraft: A and B.

The Court: Yes. I have them here.

Mr. Reycraft: Now Government's Exhibit 137 was also attached and I will hand that exhibit to the witness, also.

The Witness: I need another exhibit, and that was a compilation of these figures with an indication of the numbers of pluses and the numbers of minuses.

By Mr. Reycraft:

Q. Are you referring to service charges?

A. Yes, sir.

Oh, I have that. I have my own material right here.

Q. May I see it so we can identify it for the record?

Mr. Reycraft: Government's Exhibit 45-A is the one he [fol. 2585] is referring to.

The Court: Is that one of the Gaffey data?

Mr. Reycraft: Yes, it is, sir, as revised after the examination.

Will you repeat the question, sir.

The Court: He asked what material he had that would indicate that the merged bank would impose its interest rates on an unwilling borrower who wanted to deal with another bank. He said he did, and he was asked what it was, and we are at that point.

The Witness: My next information deals with a difference in charges charged by the two competing banks, the Girard and the PNB, and a decision——

By Mr. Price:

Q. Charges for what?

A. Charges for services.

Q. All right.

A. Provided by the banks to their customers, and commercial as well as others.

This indicates that the two banks differ in their charges. One bank has lower charges in many categories than does the other bank; and the materials indicate that the combination of the two banks will result in substantially, in most categories, in taking the highest charge.

[fol. 2586] This will affect the interest rates which the banks will charge. I draw that conclusion because the exhibit also indicates that the banks have examined very carefully the charges made by other banks in the city and I have the information here which compares the like charges made by all banks in the city, indicating that the two banks feel that it is not only possible to change their prices without taking into careful consideration the actions of the other banks and the withdrawal of the one competitive opportunity given to these two banks results in their opinion and their ability to raise their own charges.

Q. Are you speaking now of service charges or interest rates?

A. Again I say that the costs must be reflected into the price charged.

Q. I asked you, when you spoke of raising their charges, whether you were speaking of interest charges or service charges.

A. Interest is one of the——

Q. Can't you answer that question yes or no or which it is you mean?

I want to know what terms you are meaning, Doctor. I don't want a speech.

A. I am referring to the costs, charges made by the [fol. 2587] banks to businesses for services rendered to the businesses, such as servicing checks, float, deposit items returned, maintenance charges, and other similar items.

I can give you a complete list, if you so desire.

Q. And to the extent that they would increase and the profits of the bank from that source likewise increased, the bank will be able to decrease its interest rates, won't it?

A. I do not so interpret it, sir.

Q. How would that, in any event, have any effect on interest rates charged by other banks to borrowers from them?

A. The information in the earlier memorandum and this memorandum indicate that this——

Q. What is the earlier memorandum?

A. The one I just mentioned.

Q. Please mention it by some designation which is intelligible to me, a G number, if it has one.

A. Yes, sir. I refer to the Dun & Bradstreet memorandum indicating——

Mr. Reycraft: Just a minute. I have taken that document back from you, Doctor. That is why you don't have it.

It is 116.

The Witness: This memorandum and the information [fol. 2588] in these——

By Mr. Price:

Q. Now, "this memorandum" is what, Doctor?

The Court: G-116.

By Mr. Price:

Q. Is that it?

A. GX-116.

Q. Thank you.

A. GX-116, taken together with——

Mr. Reycraft: I believe you are looking for 194, which I also took back.

The Witness:—taken together with 194 and taken together with an additional memorandum that I have here indicating that the banks found it necessary to consider the similar charges, all individual charges made by each individual bank in this area, and I will find that memorandum in a minute.

I have it here. Here it is. This is G-115, an analysis survey of Philadelphia banks, competitive-accounts analysis—competitive-accounts analysis, an indication of the necessity to examine charges made by competition, including such competition as the Central-Penn, First Penco, Provident Tradesmens, Girard Corn, Jenkintown, Byrn Mawr, Philadelphia, Fidelity-Philadelphia, Liberty Real Estate, Chal- [fol. 2589] font, Montgomery County Bank, and other banks —indicates to me quite clearly that the ability of a bank to effect its charges must take into consideration the degree of competition in the market, and in the opinion of these two banks the elimination of the one will enable the resultant bank to increase some of its charges.

By Mr. Price:

Q. And you conclude from that that every borrower who wants to borrow from some bank other than the merged bank will have to pay an interest rate fixed by the merged bank?

A. I go on with my analysis, sir,——

Q. Will you please answer that question?

A. Repeat it, specifically.

The Court: Read the question.

(The question was repeated by the reporter as follows:

"Q. And you conclude from that that every borrower who wants to borrow from some bank other than the merged bank will have to pay an interest rate fixed by the merged bank?")

The Witness: No.

By Mr. Price:

Q. These exhibits which you have referred to, the service-charge exhibit, 115, and the Dun & Bradstreet exhibit, [fol. 2590] 116, and the Sylvan Pools exhibit, 194—none of those mentions interest rates anywhere in them, do they?

A. None that I have referred so far to mentions interest rates.

The Court: 194 does, the Sylvan Pools certainly mentions interest, Mr. Price.

The Witness: Thank you, Your Honor.

Mr. Price: Yes, sir.

The Witness: That is so.

Mr. Price: You are quite right.

By Mr. Price:

Q. Those other than 194 do not mention interest rates, do they?

A. No. They only mention——

Q. And 194 refers to the interest rate of this paper of Sylvan Pools as a single borrower?

A. Yes.

Q. But does not relate to interest rates charged to or made by Sylvan Pools from any banks other than Girard or Philadelphia National?

A. That is correct.

Q. All right. Thank you.

Now, have you anything else?

A. Yes, sir.

[fol. 2591] Q. To support your conclusion that the merged bank might impose its will as to interest rates?

A. Yes, sir.

I now refer to what I will call GX-237-1 or 237-I.

Q. May I ask what it is?

A. I am trying to find the number.

Mr. Reycraft: I hand you Government Exhibit 102.

The Court: 102?

Mr. Reycraft: 102, sir.

The Witness: This is a memorandum—I shall read it—to G. Edward Cooper, senior vice-president, from Ellis B. Ridgway, Jr., vice-president, and it again refers to serv-

ice charges as proposed in the application for approval to merge by the PNB and the Girard, and it says—

I will read the whole thing—do you wish me to read the whole thing or do you wish me to give the points that I find in it?

By Mr. Price:

Q. As much as you think is pertinent.

A. Well, it says that the present lower charges of our two competitors has been a problem in regarding new business——.

Q. I am sorry, I haven't been able to find the place you [fol. 2592] are reading.

A. Oh.

Q. Will you indicate?

A. Let me read the whole thing and then we will have no difficulty between you and me and my reading of the memorandum.

"This group includes all areas where the Regular and Special Checking schedules differ from the central city one.

"The merger memorandum has been reviewed by the Managers of the following areas and branches:

"W. Bruce Fye—Bucks County
"George H. Renninger—Chester Area
"Frank R. Dwyer, Jr."——

Mr. Littleton: Dyer, D-y-e-r.
The Witness: "Dyer, Jr.—Northeast

"Frederick G. Erb—Citizens
"Alan Resendorph—Hatboro
"Harold K. Koch—Lansdale
"C. R. Gillam, Jr.—Montgomery

"This group includes all areas where the Regular and Special Checking schedules differ from the central city one. Each has prepared a memorandum listing his reactions, comments, and suggestions to the several changes listed in the proposal.

[fol. 2593] These memorandums are attached for your study.

"The reactions vary among the group depending largely on present and prospective competitive condi-

tions. There is little concern with respect to center city based competitors, because they may be expected to have similar operating costs and a similar inclination to set charges approximating ours. The independent banks, which generally have lower charges (because of lower operating costs, lack of knowledge of costs, or a desire to grow at the expense of current earnings), are a source of concern to those Managers who presently compete with them. Note that three Managers strongly recommend that the proposed charges not be installed in their areas (Pottstown—both Regular and Special; Chester—Regular; Norristown—Special)."

I can go on, but this, in essence, indicates to me that there is a substantial concern among the banks as to competitive changes or competitive moves made by competitors; and again I conclude that if a substantial competitor is withdrawn from the field the competitive pressure toward lower prices must obviously be reduced as well.

[fol. 2594] Q. Are you speaking now of the same prices that were referred to in this memorandum G-102 from which you just read?

A. I am referring to the specific charges indicated so far. If you would like, I will continue to read, and then perhaps the specific charges will become known.

Q. Well, they are all service charges as distinguished from interest charges, are they not?

A. Yes, sir.

The Court: We will take a 10-minute recess.

(A 10-minute recess was taken at 11:05 A.M.)

By Mr. Price:

Q. Doctor, had you finished your answer?

A. No. I was continuing to give you what I thought was my basis for assuming that the reduction of competition would have the effect of affecting price as well as supply. I continue now with a statement that the loss of a separate source of credit evaluation and a separate source of loan granting will affect considerably loan policy, and I refer

to this—in this instance I refer to what I call GX-116. I am not sure what the number of that is.

[fol. 2595] The Court: That is the Dun & Bradstreet report.

Mr. Reycraft: This is G-205.

The Witness: G-205—I will read it to you completely, Mr. Price—is an inter-office memorandum dated December 3, 1959. Would you like to look at it first?

Mr. Price: I haven't quite found it yet; I am sorry.

The Witness: I will wait. This is one of the more recent ones.

Mr. Price: Yes, I have a copy.

The Witness: It is a memorandum to Mr. Stephen S. Gardner, Vice President, Main Office, from Third and Arch Street office, regarding the Broad Street Trust Company branch at 4th and Market Streets. It says:

> "The addition of any new banking office in this area obviously will have some effect on the present banks, including our two offices. As far as our Arch Street Office is concerned we have, for several years, been serving some 50 Broad Street Trust Co. accounts, involving accepting deposits, cashing checks and preparing payrolls. However, this is a very minor part of [fol. 2596] our Branch activity, although the new office will relieve some of our payroll work on Fridays.
>
> "Competitively I understand Broad Street has a slightly lower service charge formula than ours which could appeal to a few of our customers who are constantly on a service charge basis. On Savings Accounts they are not competitive as their interest is lower than ours. A survey of the geographical distribution of accounts serviced by this office made several months ago indicated that the major part of our demand deposit liability is north of Market Street and I do not believe these would be attracted to a bank at 4th and Market, particularly as our parking lot is an inducement to use this office.
>
> "It is also my understanding that Broad Street has tightened up considerably on their loan policy and on the type of loans we service and consider satisfactory credit risks, it seems unlikely that inducements will be

made to cause a change. It is quite possible that we could lose a few Safe Deposit customers as that group seems to be most concerned with convenience.

[fol. 2597] "It may be egotistical thinking, but I don't expect another bank at that location will materially effect our business."

My conclusion from this is that banks—and this is borne out by additional evidence that I have—that banks differ in their loan policy and banks differ in the kinds of lines in which they specialize, for competitive reasons. The elimination of a substantial competitor of the strength of these competitors, who together are 35 per cent of the banking market, will eliminate substantial abilities to reflect changes in loan policy one against the other and to affect price and supply in various lines as well as at various levels.

Q. Have you any evidence that it ever occurred in Philadelphia?

A. This is my evidence in Philadelphia (indicating). That indicates to me that banks have different loan policies, change these policies at different times, and try to service when possible accounts other than other people service.

Q. Does that indicate a power on the part of the merged bank to impose its will on customers who want to go elsewhere and banks who want to charge different rates [fol 2598] either of interest or service charges?

A. Yes, it does, for the following reason: The two particular banks that are involved in this merger have a total—one, the Philadelphia Bank, has 21 per cent of the total deposits in the area, and the other, Girard, 14.5 per cent, for a total of 36. As a percentage of IPC deposits, the PNB has 17, the Girard 15½, or a total of 32. In loans one has 20, the other has 14½, the total 34½.

Capital: One has 19½, the other 15½, for a total of 35 per cent.

These two banks, then, are extremely substantial competitors in the area, and control between them a very substantial part of banking resources. The ability of these two banks to affect such factors as we have been talking about—charges, rates, willingness to loan to specific kinds of customers, willingness to change their interest rates in order to meet competitive pressure—is extremely larger

than any other bank competitor could possibly have after the consolidation.

I refer now to a table which indicates this relative strength.

Q. Before you do that, may I ask you what "in the area" means? You have used the term "in the area." What area are you referring to?

[fol. 2599] A. When I refer to the area, I am referring to the four-county area and to Philadelphia County and the other three counties.

Q. All right.

A. Now, I have given you these figures reflecting the substantial nature of their control over available bank resources, which, we pointed out previously, are not subject to increase in this area, based upon previous history, to any substantial degree other than out of the desire of the bank to plow back retained earnings. Fresh capital does not seem to flow into this market.

Now we take a look at a table called "Concentration of Deposits Loans and Capital Funds of Commercial Banks in Philadelphia, Bucks, Delaware, and Montgomery Counties, as Shown by Relative Size of Six Largest Banks and Effect of Proposed Consolidation of Philadelphia National Bank and Girard Trust Corn Exchange Bank of Such Concentration."

Mr. Reycraft: That is Exhibit 196.

The Witness: What I show here in this table is that the relative competitive strength of these two banks would be substantially increased. The relative ability of these two banks to effect changes such as we have been talking about—interest rates in the Sylvan Pools example—service [fol. 2600] charges, loan policy, directed to specific loans, as referred to in the Broad Street example, will be materially affected if this merger were to be consummated.

If you will refer to G-196, you will notice that the competitive strength of the six largest banks in this area are to a much more substantial degree now relatively aligned. In other words, their ability to compete one with the other, and their ability to exert their influence upon the other banks is substantially lessened now than it will be after the merger.

The reason is this, that the First Pennsylvania Bank and

Trust Company and the Philadelphia National Bank have approximately the same number of total deposits, have the same amount of capital. However, the Philadelphia National Bank is less successful in using its capital and deposits to get loans. It has 83 per cent of the loans of the First Pennsylvania Banking and Trust Company. You will notice, then, that the Philadelphia National Bank is practically the same competitive size as the First Pennsylvania and the Girard, although lower, is lower at a 65 per cent level, and again we see, if we examine total deposits, and compare the total deposits of the other six large banks, Philadelphia National Bank is 97 per cent of the [fol. 2601] total deposits of the First Pennsylvania; the Girard, 65 per cent; the Provident Tradesmens, 45 per cent; the Fidelity-Philadelphia, 42 per cent; and the Central Penn, 24 per cent, and so also is it with the loans. The figures there are First Pennsylvania, 100; Philadelphia National Bank, 83; Girard, 62; Provident, 43; Fidelity, 38; Central Penn, 25.

And in capital the figures are 100, 99, 79, 61, 46, and 26.

This relative competitive strength is substantially affected by the merger. The relative ability of the new largest bank in the city is substantially increased. Its ability to affect the prices and supply of bank business in this area is materially increased relative to its closest competitor. After the consolidation the closest competitor will be the First Pennsylvania, which will have 62 per cent of the deposits of the Philadelphia National Bank, 69 per cent of the loans, and 56 per cent of the total capital.

A very significant figure, obviously, is bank capital, and this figure indicates that the Philadelphia National and Girard will have almost twice as much capital in a relatively, what appears to be a market with fresh capital is [fol. 2602] not actively sought or brought into the market; and the Provident Tradesmens, the next competitor, No. 3, will drop substantially in its competitive size, going down now to 28. So we now have a new set. Instead of 100, 97, 65, 45, 42 and 24, we have 100, 62, 28, 26, 15, and 18 in the deposit section; 100, 69, 30, 26, 17, and 10 in the loan section; 100, 56, 34, 26, 15, and 7 in the capital section.

Therefore, the relative strength of these two banks when combined to effect these factors is substantially increased

and very, very materially overshadows its closest competitor and dwarfs the No. 3 and 4 people in the market.

It is therefore my conclusion that the consolidation of these two banks will materially affect their ability to be able to affect the price and the supply and the allocation of available bank credit in this area.

Q. To use your own illustration, the Sylvan Pools, do you know who they deal with besides Girard and Philadelphia National and possibly the Pennsylvania Company?

A. I do not know who Sylvan Pools deals with. I do know——

Q. I don't care about anybody else; I am just asking you about Sylvan Pools.

[fol. 2603] A. Yes, sir.

Q. Do you know who is actively soliciting the Sylvan Pools account?

A. My information on Sylvan Pools is specifically restricted to whatever information was in the memo that I gave you.

Q. Do you— where the Sylvan Pools paper originates and therefore in what competitive area?

A. I will address myself back to the memorandum and see if I can ascertain that. Offhand I can't answer that.

Q. I will try to refresh your memory. The reference to the New Jersey, Delaware, and Maryland——

A. May I get the memo, please?

Q. Certainly.

A. Yes, sir, I have it now.

Q. The competitive area there with the Sylvan Pool money was New Jersey, Delaware, and Maryland, in addition to the four-county area, was it not?

A. Yes.

Q. How could all these things, all these figures, that you read us a few minutes ago, give the merged bank the power to control the amount of interest that Sylvan Pools will pay or the purchasers of pools from Sylvan Pools will pay or where they will get their accommodation?

[fol. 2604] A. As far as Sylvan is concerned, in relating specifically to this one borrower——

Q. That was your illustration.

A. My illustration on Sylvan Pools, Mr. Price, is taken from this Exhibit G-194, and that is the sole information

I have on this one particular borrower, Sylvan Pools, and the information that I have on that particular borrower that you referred to, Sylvan Pools, is that in the opinion of the bankers who know this account best, the elimination of one of these banks will affect the ability of the banks to set the price at which Sylvan Pools can borrow from these banks.

Q. That is for the merged bank?

A. Yes, sir.

Q. But it doesn't say anything about the ability of Sylvan Pools to borrow from somebody else at any rate they are willing to pay?

A. This memorandum doesn't say anything about that.

Q. So it does not relate to that. Now, how do any of these figures that you read us a while ago give the merged bank the power to require borrowers from other banks, or other banks, to charge interest rates that they don't want to pay or charge?

[fol. 2605] If you were president of this merged bank, how would you impose your will on these other banks and these other borrowers?

A. I will address myself to your latter question.

Q. What would you do?

A. I will address myself to that question.

If I were the president of this merged bank and I wished to exert my will on the other borrowers in this area, I would have to, as I pointed out yesterday, take into consideration the market in which I operate, the available competition, the available effective competition which I will face, and the relative ability of the customers to pay me for my merchandise, so that I can maximize my return relative to the amount of bank resources that I have available to commit to this area.

I know that I would have 35—what is it, 35 to 40 per cent—I will get the exact figure—I would have 35 per cent of the total capital of the area, total bank available capital in the area, and I would have 36 per cent of the total deposits, 32 per cent of the IPC deposits.

This to me indicates that I have a substantial control to the extent that, if people in this area wished to continue to borrow the same amount of capital that they have [fol. 2606] been borrowing before, they must come to me for

at least a third of the total deposits, and they must come to me because I control a third or more of the total bank capital.

I can buttress that by referring to the table I referred to yesterday, and that is Table 6. This capital has given me fundamentally the capital and the managerial ability that I control, has given me the control in the commercial area of 43 per cent of the total commercial and industrial loans in the area. Therefore I know that people must come to me for money in this area. I make 43 per cent of all the loans. They can't possibly supply their loan requirements without coming to me for a substantial part of that business.

Q. What power have you got to retain those deposits from any depositor who wants to walk across the street, deposit them in the Pennsylvania Company, and make his loan there?

A. The Pennsylvania Company does not have the ability to take very much of my business away without——

Q. I asked you about deposits. Please answer that question.

A. I am talking about deposits.

Q. No, you didn't mention deposits.

A. I will address myself to deposits.

[fol. 2607] Q. What power have you got to prevent a depositor in merged bank from withdrawing his account and depositing the Pennsylvania Company or some other bank?

A. I have the power that I have over a third of the bank capital in the area, and that the Pennsylvania Company——

Q. Are you speaking now of deposits or something else?

A. You are asking me to address myself to deposits, and I am explaining to you——

Q. And you are talking about bank capital, which is not deposits.

A. Well, sir, I cannot increase my deposits or my loans to any substantial degree without having adequate bank capital, and this, then, is a restricting factor. Since I have over one-third of the bank capital in the area, the Pennsylvania Company is substantially limited in the sense of the business that it could take away from me without go-

ing out and getting new capital in order to have an adequate relationship of its capital to its deposits and to its loans.

Q. I want you to tell me how, as president of the merged bank, you could prevent all your depositors or any of them from withdrawing their deposits and putting them in other banks in this area or elsewhere.

[fol. 2608] A. I do not have the ability. I simply do not have the ability to prevent all of them from leaving me.

Q. Have you got the ability to prevent any of them from leaving you?

A. Yes, I do, sir.

Q. What control have you got over any depositor who wants to withdraw his deposits and go somewhere else?

A. My competitive strength.

Q. Your what?

A. My competitive strength.

Q. How do you exercise that to retain a depositor who wants to go somewhere else? What do you do?

The Court: Loan him some money and he will keep his deposit.

The Witness: I think that is a good answer, Judge.

I counter any competitive moves in the market with my superior ability to counter these moves because I have over 35 per cent of the available bank resources. I certainly am not going to sit still. I must deal in an oligopolistic situation.

[fol. 2609] By Mr. Price:

Q. What do you mean by an oligopolistic situation?

A. An oligopolistic situation is a situation where there are a few substantial competitors in an area.

Q. How few do there have to be to give one of them the power to control all the rest?

A. There is no power to control all the rest. They compete one with the other.

In an oligopoly one has much more substantial power to effect price and supply than in competition because of its substantial size relative to the size of the competitors and the fact that only a few of the competitors are of substantial size.

Q. Then you think that the merged bank would raise its interest rates with impunity?

A. No, sir.

Q. Do you——

A. No, sir.

Q. Do you think it could decrease them with impunity?

A. No, sir. I do not.

Q. That would be dependent upon competition both from banks in Philadelphia, the four-county area, and New York and other places, would it not?

A. No, sir. It would not. For that part of the business [fol. 2610] that is substantially done——

Q. What part?

A. —in the local area——

Q. What part?

A. Sir?

Q. What do you mean by that part of the business? What part of the business?

A. I wasn't talking about any particular part of the business. I was talking about their general power and their general competition.

In addressing a statement as to a bank's or any other business' competitive moves, one must consider the market in which he is operating, and I think I tried to point out yesterday, and I do again today, that these banks operate parts of their business in separate and distinct markets, althought there is some spillover in the markets at both large and very large borrower levels.

Now, for that part of their business, which is a most substantial part of their business, perhaps three quarters of their business that is substantially local, their only competitive problems are those that are restricted to the local market for most—from a most point of view; and therefore I must consider what my competition will do in this market. There was competition before, and there will [fol. 2611] be competition after.

Q. Then do you know what the available credit is in the aggregate from all sources in the four-county area?

A. Do I know what the available credit is from all sources? No.

Q. Do you think that banks are in the same position

as manufacturing companies or other such companies so far as their ability to control the competition is concerned?

A. They are in a better position.

Q. I couldn't hear the answer.

A. They are in a better position.

Q. I could not hear the answer.

A. —than manufacturing companies.

Q. I couldn't hear your answer.

A. Banks are in a better competitive position than are manufacturing companies to control prices.

Q. Prices of what?

A. Prices of the goods that they make available.

Q. What are they?

A. Primarily money and services, but the—money and services, I think, covers most of the activities.

Q. Are you familiar with the extent to which money has moved to and from New York, between Philadelphia and New York, depending on slight changes in interest rates?

[fol. 2612] A. No.

Q. Then you don't know the frequency of competition from New York on money rates in Philadelphia, do you?

A. Money rates in New York——

Q. Would you answer my question, please.

A. I know the—I do not know it for that part of the market that New York can compete in.

I do know it for that part of the market which is primarily local. New York, to a substantial degree, can not affect the local market.

Q. Do you know how much business is done by New York banks in this general area, including the four counties, and in Camden and in Delaware?

A. To the extent that I answered the same question yesterday, I do so know the same thing today.

Q. You said yesterday you didn't and I am asking you now how you can reach any conclusion on this subject without knowing those things.

A. I will have to give you the same answer, sir.

Q. All right.

A. I said yesterday——

Q. Is there any present evidence, have you any evidence, that any of these restraints that you suggested might be exercised by the merged bank have ever been exercised

[fol. 2613] before in Philadelphia as a result of any merger?

A. Oh, no.

Q. If you were in control of the merged bank, what would you do to exercise this control that you say you would have? What would you do? How would you demonstrate it?

A. Well, sir, if I were in control of the merged bank I would take cognizance of the fact that I now am in control of a combination of two very substantial, very successful, and very well-run financial institutions. I am most impressed with both of these banks. They are fine institutions, they are well run, they have done an excellent banking job.

Q. You haven't yet told me what you would do.

A. I must take this into consideration.

Q. I don't care what your will take into consideration. I am asking you what you would do.

Describe what you would do, not why you would do it. What would you do?

A. Having control over such resources and such managerial ability, I would probably maximize the profit that I would produce for the stockholders of this bank and I would try to run as successful a bank as I was running before and expect to make a higher return on my invested capital commensurate with the combination that I now have.

Q. Isn't that what every competent bank president would [fol. 2614] try to do?

A. I should hope so.

Q. And what would you do differently with the two banks merged than you would with the two separately?

A. I don't think I am that familiar with the bank operations to answer, other than to say generally that I would try to run them as efficiently as I possibly could, hoping for better performance than two successful banks were able to do separately.

Q. I am asking you whether you can tell me anything different that you would do with the banks merged than you would if you were president of each of the banks before the merger.

A. I am afraid I can't answer that, sir.

Q. You referred yesterday, Dr. Goodman, to a publication or a paper written by John C. Sienkiewicz as an au-

thority for some of your conclusions, and I would like you to read a few paragraphs from that book.

A. I did not refer to it as an authority.

Mr. Reycraft: Did he refer to it to support his conclusions?

Mr. Price: I have no idea why he referred to it.

Mr. Reycraft: I object unless you are referring to the [fol. 2615] paragraphs he relied on for his conclusions.

The Price: He didn't refer to any paragraphs; he referred to the document.

Mr. Reycraft: If you want him to indicate the paragraphs he relied on, I have no objection.

Mr. Price: I want him to refer to the paragraphs——

Mr. Reycraft: Do you want him to read the whole book or select parts?

I object. I don't see that it has anything to do with this case.

Mr. Price: I would like the witness to read a few paragraphs from this book.

Mr. Reycraft: If they are the paragraphs he relied on, I have no objection.

Mr. Price: If this book or this paper which the witness testified to yesterday or the day before that he considered in reaching his conclusions which he has expressed here——

Mr. Reycraft: To the extent that he has considered it, I have no objection.

The Court: Well, he has opened up the subject, Mr. Reycraft. Mr. Price is completely within his bounds on the basis of what this witness has testified.

[fol. 2616] You may proceed.

By Mr. Price:

Q. Now will you be good enough to read these paragraphs which I have marked with paper clips? There are not too many of them, that one and the next one.

A. Yes, sir.

"Chapter II

"The Growing Pains of the Area

"The Delaware Valley—from Trenton to the Atlantic Ocean, with the City of Philadelphia as its center—is undergoing a vast transformation from a relatively

steady and quiet course of economic life into a vigorous, industrial, commercial, and residential development. New factories, power plants, shopping centers, homes and extensive transportation facilities by land, water and air have been and are being constructed at rapid rates. Most of the counties in the Valley are losing their rural aspects gradually and are assuming industrial characteristics in population and physical features."

Q. The next paragraph, please.

A. "The impact of this expansion upon local banking is far-reaching. The rapid growth of industry and trade [fol. 2617] obviously requires efficient banking and credit facilities, if the expansion is to be adequately financed and sustained with local resources to the greatest extent possible. This trend presents a problem of financial capacity. The resources of many scattered banking units pooled together are large enough to meet the needs of business enterprises of substantial size, but it is questionable if such pooling is feasible, chiefly because of traditional attitudes of individual bankers, territorial distribution of banks and inadequacy of personnel to handle"——

Do you want me to continue?

—"large credit services competently. This seems to be one of the basic reasons for the accelerated extension of branch banking during recent years in the Philadelphia area."

Q. Now will you be good enough to turn to the next one on page 27, starting "Several"——

A. Page 27:

"Several inferences may be drawn from this analysis of bank capital structure and lending ability. In the first place, important as the increase in capital and surplus of banks in the four counties outside of Phila- [fol. 2618] delphia has been, the total and individual lending ability of these banks has continued small in proportion to business and individual needs of the ex-

panding economy in this area, thus restricting the scope of accommodation. Second, severe limitations of physical plant, personnel and resources, make it difficult for these banks to keep abreast of industrial expansion, particularly in view of the fact that its rate of growth seems to be increasing."

Q. The next paragraph.

A. "Third, business decentralization recognizes no political or county lines and is not restricted by state laws as to political boundaries. As a consequence, large department and specialty stores in Philadelphia—Wanamaker's, Strawbridge and Clothier's, Lit's, Snellenburg's, and Jacob Reed's, for example—have established and are establishing branches in key centers throughout the area. These branches are proving to be highly successful without any material effect on their parent stores in central Philadelphia."

Q. Next.

A. "Fourth, in this outward movement of business, banks in Philadelphia appear to be at a disadvantage in meeting the need and convenience of their old and [fol. 2619] prospective customers who are establishing new plants or branches in the adjoining counties. The effect of this trend thus creates competitive hardship both on the banks in Philadelphia and on the the ability of business to meet increasing financial requirements. As a result, many of the larger industrial units prefer to obtain their banking accommodation in New York City rather than deal with such banking conditions as now exist in this area. In this situation, both banks in Philadelphia and banks in the four counties stand to lose competitive advanages unless they get together."

Q. Now will you turn to page 80 and read the paragraph marked?

A. Page 80:

"*Responsibility of the Surviving Bank*

"Measure for measure, the merging banks stand to derive positive advantages from the combination. As

stated before, the absorbed banks benefit by increased equities and income. The absorbing banks enlarge their working resources and prospects for increased earnings through greater coverage of the lending market.

"While satisfactory data are lacking, there are strong indications that the absorbing banks have in- [fol. 2620] creased their efficiency of operations and control of their costs. In recent years, they have greatly mechanized their operating processes, involving substantial outlays of capital funds. Through careful selection and training, they have been able to increase the proficiency of their personnel. After each merger is digested and various factors coordinated, substantial economies have been effected to various branches of operations. Moreover, the normal turnover of personnel has helped to eliminate duplication of jobs. These are among the basic factors in increased efficiency and lower costs, resulting from mergers."

Q. Now one more, please.

A. Another paragraph?

Q. On page 111, just that one paragraph.

A. On page 111:

"Among the causes for the less favorable trend in earnings seems to be the fact that a noticeably larger portion of resources at smaller banks are employed in the form of investments in securities, whereas larger banks usually have a greater proportion of their assets used in loans. Obviously, income from loans is [fol. 2621] always higher than from investments, especially in government securities. It may also be stated that loans are likely to involve a greater degree of risk than investments, which a smaller bank cannot afford to take. Moreover, the availability of loans in less industrialized sections, where smaller banks are usually located, is more restricted. These banks frequently lend on mortgages and for other long-term capital purposes rather than for seasonal needs as in the case of larger banks. The need for liquidity, therefore, must be met through investment in high-grade securities."

Q. Thank you.

Mr. Reycraft: Would you mark that, Mr. Price?

Mr. Price: Would I what?

Mr. Reycraft: Would you mark that exhibit?

Mr. Price: If you want to mark it, you may. I have no need for it.

Mr. Reycraft: You have been reading from it.

Mr. Price: I have no further need for it.

Mr. Reycraft: We ought to have some identification for it in the record.

Mr. Price: I will identify it by the same way that the doctor identified it yesterday, as a paper entitled "Current Trend of Branch Banking in the Philadelphia Area" by [fol. 2622] John C. Sienkiewicz.

Mr. Reycraft: Can we give it an exhibit number, please?

Mr. Price: If you wish, if you want to mark it.

Mr. Reycraft: It is your exhibit.

Mr. Price: No, it isn't my exhibit. I have no interest in making it an exhibit.

Mr. Reycraft: I suggest that it be marked with an exhibit number of he wants to use it. I think he should identify it.

The Court: It should be identified, Mr. Price.

Mr. Reycraft: It should be identified.

Mr. Price: My number?

The Court: Your number.

Mr. Price: Will you mark this with my number, whatever the D-number would be?

(Bound document entitled "Current Trend of Branch Banking in the Philadelphia Area" by John C. Sienkiewicz was marked Exhibit D-4 for identification.)

The Court: Could I see counsel, Mr. Reycraft, and you, Mr. Littleton and Mr. Price, just the three of you, outside for just a moment?

(A short recess was had.)

Mr. Price: Will you mark this exhibit so that I [fol. 2623] can get it back to the Federal Reserve library again?

(Pamphlet entitled "Branch Banking, a Report of the Joint State Government Commission, 1957," was marked Exhibit D-5 for identification.)

The Court: Does that belong to the Federal Reserve?

Mr. Price: Yes, sir.

The Court: Will they be able to reproduce the whole thing or just the part you want?

Mr. Price: Oh, no. There are just two short references that I would like to have him read.

The Court: Couldn't that be reproduced by the Federal Reserve and be made a combined Exhibit 5?

I don't like to take books out of libraries.

Mr. Price: I don't either.

The Witness: If I may make a suggestion, Your Honor, that yellow book can be gotten from Harrisburg. That's where I got my copy.

Mr. Price: This is the only one I could find on short notice. There may be another one that I would be glad to substitute for it.

The Court: Well, it will be in good hands with the reporter for a while and then we will see.

Mr. Price: If I can find another one, may I substitute it [fol. 2624] for this and put this back in the Federal Reserve library?

The Court: Yes.

Mr. Reycraft: I haven't seen this book before myself and I would like the opportunity, if you are going to ask him some questions about it, to examine it before I consider whether I am going to use it in redirect.

Mr. Price: Sure. I am just going to ask him to read a few sentences out of it.

Mr. Reycraft: May I ask whether Prof. Goodman referred to this book?

By Mr. Reycraft:

Q. Did you rely on this book in your direct testimony?

A. I mentioned the book as one of the number of books that I had gotten.

Mr. Reycraft: All right.

By Mr. Price:

Q. I show you now, Dr. Goodman, this book entitled "Branch Banking, a Report of the Joint State Government Commission," and ask you if that is the document that you referred to yesterday as having been read and relied upon by you as source material.

A. It is one of the books that I received and looked at.

Q. Now will you be good enough to read just these few [fol. 2625] lines which I have marked on page 24.

A. The heading on the page is: "Factors Underlying the Expansion of Branch Banking," and the second paragraph reads——

Q. The first sentence.

A. The second paragraph, the first sentence:

"Over the past decade, commercial banks have been subject to greatly increased competition from other types of financial institutions."

Q. Now down here.

A. "In the competitive struggle to attract liquid funds, these other institutions have outpaced commercial banks."

Q. Now this one.

A. Now the third paragraph, the first sentence:

"It is apparent from an inspection of Table 7 that the relative position of commercial banks in the financial markets has declined since 1945."

Table 7 appears on page 25.

Q. Now this one here.

A. I continue to read on page 24 from the last paragraph:

"The extraordinary growth of savings and loan associations suggests that these institutions have provided the most effective competition to commercial banks."

Q. This one now.

[fol. 2626] A. "The $1.7 billion increase in assets of savings and loan association from 1945 to 1955 amounts to 50 percent of the increase in assets of all banks.

Moreover, savings and loan associations have apparently replaced commercial banks as the dominant factor in the real estate loan market. Such data as are available regarding the holdings of mortgage loans on property in Pennsylvania are presented in Table 8," which appears on page 26.

Q. Now just one more. Will you read that paragraph?
A. All right. I now read at the bottom of page 26, the last paragraph:

"In addition to meeting increased competition from other financial institutions, many banks, particularly those in central-city area, have found themselves at a locational disadvantage. The pronounced shift in population from the metropolitan centers to outlying areas not only drained deposits from the city banks but removed the loan business of depositors as well. These developments provided a strong incentive to city banks to establish suburban branches."

Q. Now this one.
A. I now move to the next paragraph on page 27, in the middle of the page:

[fol. 2627] "Commercial banks have sought to replace a relatively few large accounts with a much greater number of smaller accounts. In part, this is because business enterprises have become increasingly independent financially; greater reliance is now placed upon retained earnings as a source of capital funds, and temporarily excess funds are often invested in short-term government securities rather than deposited in bank accounts. The rise in levels of income has created a large middle-income group which represents a principal source of deposits for banks and a stable market for loans."

I read on page 29, in the first full paragraph, starting with the second sentence:

"Under existing statutes, the maximum unsecured loan which a bank may grant to one borrower is limited to 10 percent of the total capital and surplus of

the bank. To accommodate a large borrower, a bank may enlist the services of one or more correspondent banks, but this arrangement is more cumbersome for the banks and may be considered less desirable by the prospective borrower than a loan from a single bank."

I now move to the last sentence in the first full para-
[fol. 2628] graph on page 29:

"The increased lending limits which accompany increased capitalization provide an ancillary incentive for banks to merge or consolidate."

Q. Thank you very much.

A. You are quite welcome.

[fol. 2629] Q. Dr. Goodman, you made one statement which I would like you to explain, and that was that you thought that a bank had a greater competitive advantage than a manufacturing company so far as exercising control of others. Would you explain how that would be.

A. Yes. My statement was based upon the observation that the customers of banks are much more dependent upon the product of banks than the customers of manufacturing corporations are dependent upon the products of manufacturing corporations. In other words, the customers of banks, particularly, a substantial number of their depositors, their commercial depositors, cannot merchandise their businesses without the working capital provided by banks. In other words, their complete operation would be drastically changed.

This is not so for the customers of manufacturing corporations, to a substantial degree. The alternatives which customers of manufacturing corporations have are much greater and much broader than the customers of banks. Manufacturing corporation customers to a much more substantial degree are scattered over a broader geographical area than are the customers of banks. The customers of banks, as I have tried to analyze, using this particular market, a very substantial part of the customers come in
[fol. 2630] a relatively narrow geographic area, and the distribution of manufacturing corporation businesses would be over a much broader area. So I conclude that the banks in a given geographic area have a much greater control

over their ability to affect price and supply than do manufacturing corporations, and the relative rigidity of interest rates to small business are used to rely to some degree upon this conclusion.

Q. Unlike manufacturing companies, every bank in the United States has the same merchandise to dispose of, hasn't it?

A. Part of their line is identical. That part of their line which is bank services is not identical.

Q. You were talking about money, loans, deposits.

A. Well, deposits, then——

Q. They are handling precisely the same commodity whether they are in New York or San Francisco, aren't they?

A. No, sir; no, sir.

Q. Money differs in New York from San Francisco?

A. Well, in the sense that I am now talking about, yes, it does.

Q. What is the difference between money in New York and money in San Francisco?

[fol. 2631] A. Because money in New York and money in San Francisco is made available as part of banking services to businesses in an area, and a very substantial portion of customers who use money and other bank services in San Francisco could not use money and bank services in Philadelphia—or in New York, rather.

Q. They could in New York, Trenton, Baltimore, and Wilmington, could they not?

A. No, sir, they could not.

Q. You think they could not. That is all right.

Banks are dependent, for the money that they lend, to a very large extent, on deposits, aren't they?

A. Yes, sir.

Q. And deposits, whether they are made or not, are entirely within the control of the depositor; is that not so?

A. No, sir.

Q. What prevents a depositor from changing his deposit to one bank from another?

A. The willingness of one bank to lend as compared to another.

Q. You don't mean to suggest that every depositor is a [fol. 2632] borrower, do you?

A. No, sir, every borrower is not a depositor.

Q. And every depositor is equally free to withdraw his deposit, is he not?

A. No, sir, he is not.

Q. What is to prevent him?

A. Because a very substantial number of borrowers borrow as a result of their taking loans, of their getting loans, which are granted by the creation of a demand deposit, and for those borrowers which we have seen, banks differ substantially in their loaning policy in the lines in which they merchandise, in their relative willingness to lend. For many borrowers, they simply could not change.

Q. And you would think that a corresponding deposit in another bank would not produce an equally ood loan?

A. You say "corresponding" or "correspondent"?

Q. Corresponding deposit, corresponding as to amount. Would they not provide equal borrowing facilities for a borrower who wished to go elsewhere?

A. Only if the other bank would make him a loan, sir.

Q. That is right, and the borrower is free to go to that other bank, is he not?

A. He is free to go.

Q. Banks are regulated in the manner in which they sell [fol. 2633] their produce, their loans, are they not, the amounts which they charge, or the limits on the amounts which banks may charge?

A. At the high side, yes. Most states have usury laws.

Q. They can go as low as they choose, but there is a top limit on what they may charge?

A. Most states have usury laws, yes, sir.

Q. That is not the case with respect to manufacturing companies, is it?

A. Most of the time, no.

Q. Most what?

A. I say most of the time, no, sometimes.

Q. What legal regulation on the amount the manufacturer can charge can you think of?

A. Well, I am smiling because I am thinking of Philadelphia. At the present time, for example, large electrical companies——

Q. You are speaking of public utilities?

A. No, I am speaking of manufacturers of electrical products, such as General Motors, Westinghouse, etc., have

just very recently here in Philadelphia, a number of them have agreed that they will not charge less than a set price—not a fixed price, but a price which is "too low." Several [fol. 2634] feel that it is very difficult to find out how a price is too low.

Q. My question related to the top limit on the prices that a manufacturing company might charge.

A. Now, as to a top limit, I said that sometimes public policy sets a top limit on the prices that manufacturing people can charge, and we have had instances of price control instituted by public authorities at varying times. There are other instances where public authorities have limited the prices, but I say that this is not the usual thing. Usually manufacturing concerns can charge what the market will bear.

Q. But so far as banks are concerned, they are always under this limit imposed by law on the top amount that they can charge?

A. Yes, sir.

Mr. Price: That is all, Doctor.

Mr. Reycraft: Have you finished your examination?

Mr. Price: Yes.

Mr. Reycraft: May we have a short recess, Your Honor?

The Court: Five minutes?

Mr. Reycraft: Yes.

[fol. 2635] The Court: All right.

(A five-minute recess was taken at 12:20 P.M.)

Mr. Reycraft: Your Honor, I would like to request, in so far as the redirect examination goes into this D-5 and D-4, that I have an opportunity to examine them, and if it appears necessary, have the professor back Monday.

The Court: All right, you may.

Mr. Reycraft: I would like to call Mr. Sienkiewicz now.

The Court: All right.

The Witness: Before I leave, I have something I promised to give Mr. Price when I first came on.

The Court: You may go down and give it to him.

The Witness: This was that list of the bank holding company cases you asked me for.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 230 a two-page list of bank-holding company

applications which were referred to in Dr. Goodman's direct testimony.

[fol. 2636] (Two-page list of bank holding company applications was marked Exhibit G-230 for identification.)

CASIMIR A. SIENKIEWICZ, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Sienkiewicz, you are here under subpoena, are you not, sir?

A. I am under subpoena, sir.

Q. You and I have not discussed your testimony previously, have we?

A. Pardon me?

Q. You and I have not discussed your testimony?

A. No, sir, we did not.

Q. What is your position, Mr. Sienkiewicz?

A. I am a director and president of Central-Penn National Bank.

Q. Where is that bank located?

A. The head office at Broad and Walnut Street.

Q. Where is it located in relation to the Philadelphia National Bank?

A. Within one square.

[fol. 2637] Q. And the Girard Trust Corn Exchange Bank?

A. Girard, the same. They are at Broad and Chestnut.

Q. You are all within——

A. Within one square, about one block.

Q. How long have you held that position, Mr. Sienkiewicz?

A. Just about 14 years.

Q. And prior to that time?

A. Before that I was with the Federal Reserve Bank of Philadelphia.

Q. Can you tell me, sir, what the lending limit is your bank?

A. Exactly, I recall, $2,139,000. That is our capital and surplus.

Q. On the basis of your experience with that lending limit, has it been adequate to take care of all your borrowers at your bank?

A. Our bank, of our size, we have been able to accommodate customers. Now and then, of course, there may be a case where you couldn't go the whole line, but $2 million is our limit, and that is what we stick to.

Q. There have been cases where you haven't been able to go the whole line?

A. Yes, in one or two cases that I recall now that we [fol. 2638] could have gone more. The people would have been satisfied, the original borrowers, if we had more.

Q. In those one or two cases, sir, what did you do?

A. Well, we just gave them $2 million. That's the limit.

Q. Did you arrange for an overline?

A. In one case, as I recall, yes, we did.

Q. And did you have any difficulty doing that?

A. No, sir.

Q. Is it common practice, in your experience, for banks to arrange for participations under these circumstances?

A. Yes, I would say.

Q. Did the necessity that you arrange a participation in that case adversely affect your bank's relationship with the borrower?

A. No, sir.

Q. Do you, Mr. Sienkiewicz, know of any industries which have come to Philadelphia because of the loan limit of any commercial bank in Philadelphia?

A. Personally I don't recall.

Q. You don't know of any?

A. I don't know of any.

Q. Can you tell me in what geographic area most of the borrowers from your bank are located?

[fol. 2639] A. We primarily operate within the Philadelphia area and the four-county area that you described. We have an office in Montgomery and Lower Bucks County. There we have substantial business, but we also get some from Delaware.

Q. Based on your experience, why do you think that this is where most of your business is located?

A. Well, because we are concentrating our efforts right locally here. We see that our loans are pretty well represented in the city. We have no concentration in any one particular industry. I am pretty strong on that. We would like to have industry represented in our bank, and they are, but we are primarily local.

Q. You try to take care of the needs——

A. Of the needs of the locality, business in Philadelphia proper, and these three or four counties adjoining.

Q. When you refer to Delaware, I understand you to mean Delaware County?

A. Yes, Delaware County, not the state.

Q. Do you know of industry or any business which has not come to Philadelphia because of the inadequate lending limit of any bank in Philadelphia?

A. No, I do not.

[fol. 2640] Q. Can you tell me in what geographic area most of the depositors in your bank are located?

A. They are spread all over the city, all over Philadelphia and surrounding counties, like Bucks, especially.

Q. Bucks especially?

A. Yes.

Q. How about Delaware County?

A. I imagine we have some from Delaware, but that is a detail that I am not familiar with. I am sure we have that because we have something over a hundred thousand accounts.

Q. What percentage of your deposits would you say originate in the four-county area?

A. Four-county including Philadelphia?

Q. Philadelphia, Bucks, Montgomery, and Delaware Counties.

A. Well, most of it, of course, most of it, but percentage, I really haven't figured it out, because we have some substantial deposits from other cities, like large companies, national companies, who do borrow from us, do get the limit of $2 million.

Q. Why do they keep deposits in the City?

A. Because that is a custom. Of course, they draw checks on us, so they use the loans, the deposits, so that is one [fol. 2641] reason, and the other, they always keep deposits for customary use and are using the money.

Q. How many branches does your bank have?

A. 18 at the moment.

Q. On the basis of your experience, are branches an important factor in maintaining your over-all competitive position in commercial banks in the area?

A. I would certainly say so, yes.

Q. Why, sir?

A. Well, because the spread, the movement, of business borrowers, our own customers, to the suburbs outside, and the matter of convenience is very important, to have an office to service those customers, and for competitive reasons, too, so we move out and we go where our customers go, within the legal limits, of course.

Q. So is it an important factor in competition between your bank and other banks in the Philadelphia area that you have a well distributed branch system?

A. I should think so, especially now in the changing economy and urban conditions of life.

Q. Mr. Sienkiewicz, how do banks compete for deposits, based on your experience?

A. We try to give a good service. All banks in Philadelphia are good banks, they give good service, but [fol. 2642] some of them do better than others. We are strong on quality of service, and that, of course, gets around, and people think that the bank is good, and they like it, and they open an account there; and the borrowers the same way. There are 11 or 15 banks, for instance, in Philadelphia, and some like larger size, others like smaller size, still others, intermediate size, or probably the management, the officers. It is just one of those human things. There is always movement. Always there are changes, although there is considerable loyalty on the part of borrowers to stay in the same bank, and, of course, you get to know them. The case of risk appraisal is terribly important, and there are a great many factors that enter into the attracting of deposits and loans too—deposits, primarily.

Q. Would you say that you have to keep on your toes in order to stay competitive in the area?

A. You certainly do. I say in Philadelphia—elsewhere, too, but Philadelphia now, the competition is even keener than it used to be.

Q. Are service charges a factor in competition for deposits?

A. From what I understand from our officers and those who are in business development, I haven't heard any [fol. 2643] particular complaint against that. There are usually isolated cases of complaint on service charges.

Q. Are your services charges the same as those of other banks in the area?

A. No, I think they vary. We were one of the latest to increase our service charges, but I haven't made a comparison myself of our service charges against other banks, but I think there is quite a variation. I think probably we are too low.

Q. But your bank was one of the last to increase the service charges?

A. We were about the last one, yes.

[fol. 2644] Q. Do the service charges that other banks make have any bearing on the service charges which you are able to make?

A. Usually no. When they do, when you do know that is when the change is made; so for a week or two you notice movement of deposit population; but after that it all sort of smoothes itself out.

Q. You have found, however, that there are some accounts which move if the service charge changes?

A. Oh, yes. Yes, we had that experience and others, I am sure, had, because we got their customers and back because service charges were higher there and we found out that later on those very people who came to us went out because they were really—they were losing accounts, and I don't believe that the good accounts, profitable accounts, or those that bear their own way should pay the loss accounts, for the losing accounts that we had.

Mr. Reycraft: That's all.

Cross-examination.

By Mr. Littleton:

Q. Mr. Sienkiewicz, this one overline loan that you remember, do you remember what bank you suggested for the part that was over the line?

A. No, I don't. I really don't. It's a very exceptional case, so it really isn't typical at all.

[fol. 2645] Q. Do you remember whether it was another bank in Philadelphia?

A. Well, that, I, Mr. Littleton, am not so sure whether it's Philadelphia or New York. I kind of—I think it's New York, but I am not sure.

Q. Did you take a part of the loan to the full extent of your lending limit?

A. Yes, sir. We took——

Q. And the New York bank took the rest of the loan?

A. Yes, sir. We took $2,000,000 and the other bank took another million.

Q. Did your customer have to put a deposit in that New York bank?

A. I think he had a deposit there.

Q. He already had it?

A. I think he already had a deposit.

Q. Was it he that suggested the New York bank or did you suggest the New York bank?

A. I think it was mutual. He suggested that here is a bank that could do it, and it was our correspondent. I think he had dealings with that bank. There was nothing unusual on that score.

Q. In your competition, Mr. Sienkiewicz, you never compete for loans by charging a lower interest rate deliber-

[fol. 2646] ately, do you?

A. No, sir. That's one thing that's our policy, that we will not compete on anything of that sort. We appraise, we analyze each risk, we deal with it case by case; and regardless of what anybody else does we follow our own.

Q. This is usual with a well-run bank, isn't it, in this area?

A. I should hope so, sir, because I don't see how else a good sound bank would be run. I am speaking now of a bank that is well run, soundly, sound principles and sound practices, which I hope we follow, that our officers follow.

Q. In speaking of the area in which you operate, as you have said, Philadelphia and the three or four counties——

Mr. Reycraft: He said three counties.

Mr. Littleton: He said three or four counties around it.

The Witness: Yes, yes. We do draw from four counties, really.

By Mr. Littleton:

Q. Which is the fourth county? Philadelphia and the three, or four counties surrounding it; which would be the fourth county?

A. Well, the neighborhood would be Philadelphia, Bucks, Montgomery, Delaware, and some from even Chester; but [fol. 2647] also from Jersey, but not many, we do business.

Q. And the Jersey business comes from Camden County?

A. From Camden and Ocean.

Q. Do your branches in Bucks County get anything from other of the New Jersey counties?

A. I understand they do.

Q. From Burlington?

A. From Burlington.

Q. Mercer County in New Jersey?

A. That's right; that's right.

Q. Mr. Sienkiewicz, do you believe that this merger of the Philadelphia National and the Girard will adversely affect the small and medium-size businessman in Philadelphia?

Mr. Reycraft: I didn't ask him that, Your Honor.

I object.

If he wants to put him on for that purpose I think I am entitled to cross-examine.

The Court: I will sustain the objection at this time. It wasn't covered in direct.

Mr. Littleton: I just wanted to see if Mr. Reycraft wanted it. He didn't.

It's quite apparent that he doesn't.

Mr. Price?

[fol. 2648] By Mr. Price:

Q. You spoke about this competition for deposits.

Do you feel that competition from banks that are larger than you are as well as banks that are smaller than you are?

A. Competition for deposits?

Q. Competition for deposits.

A. It's pretty sharp among all.

Q. And the competition is sharp both from larger banks as well as from smaller banks, is it not?

A. Yes, indeed.

Q. And the size of a bank has nothing to do with its ability to compete for deposits, has it?

A. No, sir. They are all fine. They are all friends, and they are all bad in so far as we are concerned, because they are vigorous. I have never seen anything like it as the competition is in Philadelphia now. That is, I remember when there were 45 banks and now they are down really to 11, with the other smaller banks, but say 11 or 15 to be sure that do a commercial business, and every one of them is beating the sidewalks, and so do we.

Q. And there is much more competition now that there are fewer banks than there was when there was a very much larger number?

[fol. 2649] A. Oh, yes, much more, much more.

Q. And the mere size of a bank doesn't give it any advantage in competition for deposits, does it?

A. For deposits, on beating the sidewalks, going to people, no. That is as I see it, except that you may have more men going around, but that's our fault if we don't have enough men.

Q. If you have a larger staff you have more people.

A. Right. What we do is we send out our officers. Everyone goes out and interviews.

Q. And the competition comes not only from other banks in Philadelphia, but from banks in New York City, does it not?

A. Oh, yes, New York and even other—I think Boston and we have had repercussions there, a couple of them visit, and Buffalo.

Q. Solicitors from banks in those cities?

A. Yes. One, especially one or two cases that I recall.

Q. Buffalo, New York, Boston, and what other places do solicitors come from to solicit business in Philadelphia in competition?

A. Well, apparently there are some businesses in Philadelphia that have other branches. I can think of one in Chicago that visits here, but I haven't noticed any special

pressure from Chicago or Buffalo or Boston, as much as from New York.

[fol. 2650] Q. But the New York competition is very strong, is it not?

A. Yes. In one case that we have had, where really it went and visited our own customer and, of course, we protested immediately because we had an account there; so everything was fixed up, but that was evidence that they were soliciting.

Q. That was the case of a bank sending a representative to try to get one of your customers away from you to work with him in New York; is that it?

A. In this one instance, yes.

Q. Now with regard to service charges, you said they go up and down and they vary, but do they make very much difference in the long run?

A. I didn't say they go up and down. Once they are fixed, they sort of stay the same, but there is a variation. It would be terrible if they went up and down; we would have trouble all the time.

Q. Well, they get solidified up and down.

A. Yes, they are solid. As I say, I haven't made the comparison of charges as between, as among banks, but I don't think they are uniform.

Q. No.

A. Of course, you gentlemen have the records of that.

Q. Well, assuming that they are not uniform, they don't make very much difference so far as maintaining deposits are concerned, do they?

[fol. 2651] A. No, no. I think that people are being educated now and are being aware of the costs.

Of course, it depends on the activity, you know, the activity of the account. Some large firms pay very heavy service charges. You take any publishing company, for example. I mean by publishing, a magazine company or a paper like the Curtis. That's a very large activity in that account, so, some large companies, they really pay substantial service charges.

Q. Because of the great activity——

A. That's right.

Q. —in the account?

A. That's right.

Q. And the cost to you in the bank?

A. That's right.

Q. Of performing these services?

A. That's right.

Q. So in general these service charges are based upon the costs to the bank of rendering the service requested, are they not?

A. Yes, sir.

Q. That is the theory of them?

A. In practice.

[fol. 2652] Q. And in practice?

A. We allow so much credit for the balances because they earn something.

Q. Yes, and that is an offset against the service charges?

A. That's an offset; that's right.

Q. But the service charges themselves are based on the bank's own estimate of the cost of rendering the particular service for which the charge is made?

A. That's right.

Q. And those charges vary between banks to some extent, do they not?

A. They do, they do.

Q. But it used to be not too long ago that there were no service charges rendered by any bank; isn't that so?

A. That's right. Things have changed there.

Of course, you refer to the period when we had mostly wholesale banking, that is, no retail or consumer credit. Now, you see, it's a mixture, the wholesale and retail, commercial and business, commercial loans and consumer loans; and that's a mass of customers there.

Q. But this service charge is a new development to take care of the additional costs of rendering services that you were not called upon to render in the old days when there were no such charges?

[fol. 2653] A. I would say that's substantially so; true.

Q. Thank you.

In fact, there was a time when you paid depositors to put their money in your bank, wasn't there?

A. That is true.

Q. You don't do that any more?

A. No.

By the Court:

Q. Did you ever lose an account because of the service charges, that you know of, a good account?

A. No.

Q. Did you ever lose a good account because of service charges you made?

A. Not a good account, Judge, but some poorer, yes.

Q. Well, I would expect that. I am talking about a good account.

A. No, sir.

By Mr. Price:

Q. Do you compete also in the matter of interest rates on savings accounts? Is that part of your competition?

A. No. Of course, in savings accounts we are operating under a legal limit. At the present time it's 3 per cent, and that's it. That is what we are paying. I think that's what all Philadelphia banks with the exception of one, I [fol. 2654] think, pay 3 per cent.

Q. Commercial banks are not permitted by law to pay more than 3 per cent, are they?

A. No, sir. That's fixed by the—that is generally by the Federal Reserve and then in each state by the Secretary of Banking.

Q. And you now pay 3 per cent?

A. We pay 3 per cent.

Q. Have you been doing that as long as other banks?

A. Just about the same, although previous to that we were a little less than the other banks. That is, they were paying 2½, we were paying 2 per cent; but since we went to 3 we all went about the same time.

Q. And when you were not permitted to pay more than 2½ did you notice any loss of savings accounts or time accounts?

A. Yes. Toward the end, just between sort of 3 per cent and this 2 per cent that we were paying, at one point we noticed a seepage.

Q. Were did that go?

A. We don't know. It just—because people didn't change, except that the accounts began to diminish, and when, of course, we went back to 3 per cent, then there

was a real pickup, so much so that we have now quite a substantial increase in very costly money.

[fol. 2655] Q. And then in your competition for time deposits did you notice any change based upon the amount the Secretary of Banking allowed you to pay?

A. Time deposits are different. They fluctuate more with the short-term rates available to business corporations.

Q. But there was a time when you were restricted by the Secretary of Banking as to the amount that you could allow on time deposits; is that not so?

A. That's right. Well, that still applies, of course.

Q. Yes.

A. Depending on whether it's 30 days, 90 days, or 6 months.

Q. And then that wa- inc-eased was it not?

A. Yes.

Q. Because you lost so much money to New York?

A. Yes—no. Now let me get that question because I am not quite clear.

Q. Was not the rate increased by the Secretary of Banking of Pennsylvania because banks in Philadelphia were losing so much time money to New York?

A. That was the argument at the time, but I am——

By Mr. Reycraft:

Q. Your bank is a national bank, isn't it, Mr. Sienkiewicz?

A. Ours is a national bank, Central National, Central-Penn.

Mr. Littleton: Excuse me.

[fol. 2656] Mr. Price: Yes.

By Mr. Littleton:

Q. But a national bank has to follow the rules of the State Secretary of Banking, doesn't it?

A. The rates on that must conform to the state law.

By Mr. Price:

Q. Yes, so that made no difference as far as you were concerned?

A. No difference.

Mr. Price: I have nothing further.

Redirect examination.

By Mr. Reycraft:

Q. Mr. Sienkiewicz, how many deposit accounts have you lost to New York banks that you know of?

A. We haven't lost any to New York banks.

Q. How about Boston banks?

A. None, no, no. We haven't lost—we haven't lost any, but one went there—it's still with us, too, but that was under special arrangement, purely a borrowing arrangement which we could not meet and the Boston bank met; but we are back again, but not under that arrangement, on a different arrangement, so we really haven't lost any.

Q. And I think that goes for Chicago and San Francisco and Los Angeles?

[fol. 2657] A. No.

Q. You would give the same answer?

A. The same answer, yes.

Q. And if I asked you about loans, what would your answer be with reference to Boston?

A. Well, Boston and others don't affect us so much because we are primarily local, primarily within this area. I would say those counties and little more, although we do have loans, a few scattered loans elsewhere, but nothing like, for instance, Philadelphia National through their participation more or less nation-wide; and, of course, I am not familiar with that. That is a private affair.

Q. You don't know the details of that?

A. I don't know the details and I hope they don't know ours, although——

Q. I think after this case is over you may understand a little bit of that that is put in the record.

Have you lost any loans that you know of to New York banks?

A. No, I don't recall any. I don't recall.

In the case that I mentioned, where our customer was solicited, we got on the job quickly because the customer came to us and told us, and we talked to the bank and the officer was interviewed, and that was that.

[fol. 2658] Q. Was this customer located here in Philadelphia?

A. Right in Philadelphia, almost within half a block of our own office.

Q. Do you think that this gave you any advantage at all in trying to get his business or keep his business over the New York bank?

A. Well, we just wanted to keep that customer.

Q. You were able to give him better service, weren't you, than the New York bank?

A. Oh, I should hope that we give better service than any New York or any Philadelphia bank.

Q. Is the fact that you are one block away rather than 90 miles away any factor in that ability to serve the customer?

A. Well, there is an advantage being close.

Q. What is the advantage? How does that operate?

A. Well, he may be able to get next to the president, the customer.

Q. You also testified, Mr. Sienkiewicz, concerning interest-rate competition.

Is it considered to be unethical to compete with respect to interest rates among bankers?

A. I don't see anything unethical if anyone wants to give away or assume dubious risks. That's where my point is.

Q. You don't think there is much point to it?

[fol. 2659] A. No. Rates—you compete on cases.

Q. You evaluate the risk?

A. You evaluate.

Q. Has your evaluation of a risk ever differed from that of any other bank in Philadelphia that you know of?

A. Well, in general, I would say that all Philadelphia banks have very competent staffs. They all go to Robert Morris training, sometimes overtraining, so that they become so technical that really the poor borrower has difficulty; but I should like to think that our Credit Department is about the best.

Q. It is the best?

A. Yes.

Q. And therefore your credit evaluations and your risk

evaluations would be a little bit better than those of other banks?

A. Yes, yes; but other banks are pretty good, too.

Credit evaluation is very important, and then the servicing of that loan is very important. It's very costly if it is troublesome. Many loans develop into troublesome loans, so you take the risk, you take the servicing, the whole thing.

Several factors go into that interest rate and we believe [fol. 2660] that this particular risk should pay so much and we usually determine our own rate.

Q. Yes, sir.

Now, even among banks which have very good credit departments and excel in rating, are there occasional differences of judgment?

A. I should think there would be variations in judgment. Even within the same department experts will vary and somebody has to come in and pull the strands together and make a decision.

Q. So that no matter how good they are, there are differences of opinion?

A. You have to use judgment, yes.

Mr. Reycraft: That's all.

Mr. Littleton: I have nothing further.

Mr. Price: May I ask, Mr. Reycraft, would you object if I should ask Mr. Sienkiewicz about this particular merger?

Mr. Reycraft: Let me say, Mr. Price, that I have made a commitment that I will not ask Mr. Sienkiewicz any opinion about anything; so what you do, if you want to put him on as a direct witness at this time, I am agreeable.

Mr. Price: It is now 1 o'clock. I won't do it now, but you would object on cross-examination if I did that?

Mr. Reycraft: No. I would object to you asking any [fols 2661-2662] questions of the witness that I may say that I have not asked the witness concerning his opinion.

Mr. Price: You objected when Mr. Littleton asked him, so I didn't want to ask the same question.

The Court: The ruling will be the same as to you, so let the record show that.

Mr. Price: I just wanted it clear that I was in the same position as Mr. Littleton; that was all.

The Court: I will put you there.

Gentlemen, Monday morning.

(Recess taken at 10:00 o'clock P.M. until 10:00 o'clock A. M. on Monday, June 26, 1961.)

[fols. 2663-2664] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

FIFTEENTH DAY

Philadelphia, Pa., June 26, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * * *

[fol. 2665] HENRY D. SATTERFIELD, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Reycraft:

Q. Mr. Satterfield, what is your present position?

A. Assistant vice president of the Philadelphia National Bank. I am the manager of the Time Credit Department. We are responsible for the handling of direct and indirect installment loans.

Q. How long have you held that position?

A. I have been manager of this department since June, 1959.

Q. What was your position prior to that time?

A. At that time I was assistant cashier, and I was in charge of sales, retail sales and time credit sales.

Q. So that you have been involved in time credit sales at least since 1956?

A. I would say since 1955.

Q. Mr. Satterfield, can you describe the practice of the Time Credit Department of your bank in competing on interest rates?

A. Well, our practice as far as competing on interest rates, No. 1, our field men or myself, when we go out to make a call, the first thing we try to sell is service. We [fol. 2666] try to sell our bank, and we try to sell our service. We would like to be known as a bank that gives service, and we get business because we give that type of service.

Ratewise, we look at an account that has a rate—we try to judge the rate on the amount of retail business we are going to sell compared to the wholesale. You have got to look at the profitability of the account. Our policy is not to cut rate.

Q. Despite that fact, do you sometimes do so?

A. Well, going back on the accounts, maybe it has been occasions when our rate would have been a little lower than maybe at the present deal that the dealer had.

Q. Do you ever try to meet competition when the competition has a lower rate than yours?

A. Sometimes we do and sometimes we don't.

Q. Depending on what, sir?

A. It depends on the circumstances. In other words, as far as the amount of retail business we are going to receive. Usually we try not to lower our rates.

Q. Do you know Mr. R. Strunce?

A. Robert Strunce, he is my assistant manager. He is assistant cashier.

Q. How long has he been your assistant?

A. He has been my assistant manager since June of [fol. 2667] 1959, when I took over the Time Credit Department.

Q. Did you work with him prior to that time?

A. Yes, sir.

Mr. Reycraft: Will you mar as Government Exhibit No. 231 a two-page document which is a memorandum of

July 11, 1956, to R. Strunce, assistant cashier, subject, agents auto plan, from Don Breth.

(Two-page document, memorandum of July 11, 1956, to R. Strunce, Assistant Cashier, from Don Breth, was marked Exhibit G-231 for identification.)

Q. Mr. Satterfield, does Government's Exhibit 231 indicate to you that you were receiving rate competition from commercial banks in this area around the period of time it was written?

(Exhibit G-231 handed to the witness.)

A. Would you repeat your question again, sir.

Q. Yes, sir. My question is, does Government's Exhibit 231 indicate to you that your bank was receiving rate competition from other commercial banks in this area?

A. Yes, it does.

Q. Let me ask you first, who are the Allstate Agents? Can you describe their function?

A. Well, the Allstate Agents, as you know, is an insurance company, Sears Roebuck. They are agents that [fol. 2668] go out and generate paper. They try to get the insurance. The interest, No. 1, is selling the insurance, but they have a plan where they work where they bank, where they will sell a finance deal, with the idea that they have a rate that they can compete, and by competing they could secure the deal?

Q. Do these agents work with your bank?

A. At one time they used to. We get very little business at the present time from Allstate Insurance Company.

Q. At the time this memorandum was written, however, they did work with your bank; is that right?

A. Yes, that is correct.

Q. Does this memorandum indicate that your bank was losing any business because of rate at that time?

A. This memorandum would indicate we were losing some business because of rate, that is correct.

Q. And did your bank change its rates as a result of that competition?

A. Of course, this is 1954. I could not answer if we

changed our rate at that present time. I think the memorandum refers to a dealer that an Allstate agent was receiving business, and when our man contacted this dealer he found out that he had been offered a lower rate, I be-
[fol. 2669] lieve through the First Pennsylvania Company. We could not meet that rate.

Q. Your bank could not meet that rate?

A. We did not meet that rate.

Q. And the payments under your plan were higher at that time; is that correct?

A. Well, in some instances. You see, payments are broken down according to the number of months, like 24, 30, and 36 months.

Mr. Reycraft: Will you mark as Government's Exhibit No. 232 a two-page document which is a memorandum dated April 29, 1957, from Mr. Frederick G. Erb to Mr. E. Lawrence Worstall, to which is attached a memorandum from E. Lawrence Worstall to Mr. Ellis B. Ridgway, Jr., dated May 7, 1957.

(Two-page document, memorandum dated April 29, 1957, from Mr. Frederick G. Erb to Mr. E. Lawrence Worstall, with memorandum attached from E. Lawrence Worstall, to Mr. Ellis B. Ridgway, Jr., dated May 7, 1957, was marked Exhibit G-232 for identification.)

Q. Would you examine Exhibit G-232, Mr. Satterfield. What does this indicate to you with reference to the existence of rate competition with your bank at the time this memorandum was written?

[fol. 2670] A. Well, reading through this memorandum would indicate that evidently Security Trust Company had offered a lower rate on a personal loan than our rate.

Q. Will you refer to the handwritten notation at the bottom, which I interpret this way:

> "Earl says he pointed out that our rate was from the P/L chart and was a discount, not an add on rate. He also told Mr. Erb that he could charge any lessor rate that he wanted. (Is this the first knowledge Mr. Erb had of his competitor's rates?,"

What is your knowledge, sir, of the authority which Mr. Erb had to charge rates below the chart rates?

A. Well, the authority that Mr. Erb has as branch manager, when a customer of our bank would come in, maybe who has a deposit with our bank, a long relationship, in other words, when a personal loan would come in, he would have authority to lower the rate if he thought it was necessary.

Q. He does have the authority to change the rate to meet competition?

A. This is considered an exception.

Q. I assume you don't know in this particular case [fol. 2671] what action was taken as a result of this memorandum?

A. That I do not know. I know we did not change our personal loan rate.

Q. You do not know, however, whether you made an exception in this case?

A. That I cannot answer.

Q. Will you mark as Government's Exhibit No. 33 a two-page document which consists of a memorandum dated April 16, 1958, from Robert Lowry to W. E. Brown, and a memorandum dated May 19, 1958, from Robert Lowry to W. E. Brown.

(Two-page document, memorandum dated April 16, 1958, from Robert Lowry to W. E. Brown, and memorandum dated May 19, 1958, from Robert Lowry to W. E. Brown, was marked Exhibit G-233 for identification.)

Q. Mr. Satterfield, can you identify Robert Lowry?

A. Mr. Lowry at the present time is manager of our Time Credit Department in the Northeast. He is responsible for home modernization dealers.

Q. Can you identify Mr. W. E. Brown?

A. Mr. W. E. Brown at that time was assistant vice president in our Allegheny office.

Q. This memorandum comparies the rates charged on the type of business you described by First Pennsylvania [fol. 2672] and Girard Trust Corn Exchange Bank. Can you tell me, sir, how the Girard's rates compared to your bank's at this time?

A. Are you talking about this particular feature?

Q. Yes, sir.

A. This seems to have to do with a 90-day cash plan,

which, according to our recording, we do not see a great deal of; but according to my records I understand that our flat charge on a deal that is paid off within 30, 60, or 90 days is comparable to our competition.

Q. The memorandum indicates that your new bank policy at this time was definitely not competitive. What do you understand that to mean?

A. Well, I think what Mr. Lowry means there is that our plan on a 90-day cash deal was not competitive with the other banks. It has to do, to my interpretation, this memorandum has to do with a pay-off figure. At times a home modernization dealer would sell a deal, and it would be a 90-day cash deal, and he would send the dealer in, and it has to do with how much we would charge when the dealer pays it off within 90 days—the customer.

Q. So that aspect was not competitive?

A. At that time. We were a little higher than our competition.

[fol. 2673] Q. What does the phrase mean, "I feel we must be a little more realistic in our approach," which appears in the fourth paragraph of this exhibit, as far as you understand it?

A. Well, my interpretation of this, this is not the type of business we are seeking, because this is a business that is paid off in 30, 60, or 90 days, and I think Mr. Lowry—my understanding would be that Mr. Lowry would like us to take a more realistic approach to this type of deal.

Q. Which is to meet the competition?

A. Well, to meet the requirements of the dealer, the request of the dealer.

Q. To equalize your firm with those of your competitor; is that correct?

A. I would say yes.

Q. Now, on the next page of Government's Exhibit 233, which is a memorandum dated May 19, 1958, would you explain what is meant by the sentence, "I believe the reply indicate we copied Girard Trust Corn Exchange in this matter, and that we were not trying to be competitive with First Pennsylvania Company."

A. Mr. Reycraft, the only interpretation, what I think he probably means by "copied" evidently we used some [fol. 2674] of the figures that Girard had. Remember,

we are not old in this business. We have only been really active in this business in 1955. So I think probably what he means is maybe he saw the plan, the dealer gave him the plan of Girard, and we probably put through some of the plan that they had on this home modernization deal and this 90-day payoff deal.

Q. You were following Girard's rates and terms?

A. It is a possibility. Probably what this means is that we didn't use that closeout figure once again, the flat charge on the Girard dealer.

Q. Does he indicate that the First Pennsylvania terms would be more favorable?

A. I believe that is what he indicates, Pennsylvania Company's charge probably wond be lower than our charge. That would be my interpretation.

Q. Would you read the last paragraph, sir, and explain your understanding of that paragraph.

A. "This as we discussed, is an important part of our over-all time credit program as we continually take a non-competitive attitude in our thinking; I cannot help but feel we will hinder our bank's progress in this field. In view of this discrepancy between our bank and even Girard Trust Corn Exchange, I suggest we once again reconsider the above."

[fol. 2675] Q. Would I be correct in understanding that even though you followed the Girard rates at this time, you were even at that time above the Girard in some respects?

A. Well, you could probably consider that. I think it is getting back to Lowry writing to this officer in charge at that time with the idea to lower the particular flat charge once again to try to be competitive, because our flat charge on the deal was higher, and I think what he means there, we were not competitive as far as this particular 90-day cash deal or closeout deal was concerned. Once again we had to consider the amount of money we charged and how much time it cost us to handle the account, and so forth.

[fol. 2676] Mr. Reycraft: Will you mark as Government's Exhibit No. 234 a one-page document, which is a memorandum. The name Robert R. Strunce appears at the bottom, and it is dated 7/22/58.

(Document headed "Home Modernization—Girard Corn Plan" dated 7/22/58, with name, Robert R. Strunce, at the bottom, was marked Exhibit G-234 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, referring to Government's Exhibit 234, do you know how the home modernization plan offered by your bank at this time compared with that of the Girard Corn described in this memorandum?

A. Do you mean at the present time?

Q. No, sir, at the time of this memorandum.

A. I could not answer that question definitely. I would say our plans were competitive, but to come right out and tell you what Girard's plan in 1958 was compared to our plan, I could not answer that.

Q. By "competitive," do you mean that the terms that you offered were comparable to those offered by the Girard?

A. I would say yes, but I would say I do not know for sure.

Mr. Reycraft: Would you mark as Government's Ex-
[fol. 2677] hibit 235 a one-page memorandum dated March 31, 1959, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject, Home Modernization Plan—Reserve Bonus.

(One-page memorandum, the Philadelphia National Bank, dated March 31, 1959, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject "Home Modernization Plan—Reserve Bonus," was marked Exhibit G-235 for identification.)

By Mr. Reycraft:

Q. Would you examine that document, Mr. Satterfield? Could you describe, Mr. Satterfield, a reserve bonus plan in relation to the home modernization plan?

A. Well, as stated in this memorandum, a bonus plan is where a dealer would charge a rate to a customer of so much. It referred in this memorandum to a 7½ per cent rate. The bank would retain a 6½ per cent rate. The bonus is for the dealer.

Q. Now, does this memorandum indicate to you that at this time your bank was not matching the Pennsylvania Company reserve bonus plan?

A. This memorandum would indicate that at the time our man in the field—the Pennsylvania Company offered the bonus plan and we did not have a plan at that time and that was the purpose of this memorandum.

[fol. 2678] Q. What was the recommendation of the memorandum? What effect would it have on your ability to match this plan?

A. Would you repeat that, please?

Q. Yes, sir.

What effect would the recommendation made in the memorandum have on your bank's ability to meet this bonus plan?

A. Well, at the time when the bonus plan was presented, in the time credit field, when a bank or a finance company or any other company offers a bonus deal, naturally, the dealer is interested in a bonus plan.

At that time we did not have what you call a bonus plan, so the purpose of this memorandum was the discussion to meet this plan. In other words, it was felt that we had to compete and we are going to get in the home modernization field.

As you realize, the Pennsylvania Company is one of the largest in the home modernization field.

Q. Did you thereafter change the bonus plan?

A. Yes, we did change the bonus plan to meet the competition.

Q. And you became competition in that period?

A. And we became competitive.

[fol. 2679] Mr. Reycraft: Will you mark as Government's Exhibit No. 236 a one-page memorandum from Robert R. Strunce, Assistant Cashier, to Mr. Ellis B. Ridgway, vice President, dated April 1, 1959.

(One-page memorandum, the Philadelphia National Bank, dated April, 1959, from Robert L. Strunce to Mr. Ellis B. Ridgway, re: "Consolidation Plan for Home Modernization Dealers," was marked Exhibit G-236 for identification.)

By Mr. Reycraft:

Q. Would you examine that document, sir?

A. All right.

Q. Can you explain, sir, the change which is recommended in this memorandum from what were then your existing terms?

A. Well, my interpretation of this memorandum to Mr. Ridgway from Mr. Strunce would be our home modernization branch was running into some competition on the Town & Country account. The Town & Country account is a very highly regarded account, with good retail volume, and they were approached with the idea of offering a consolidation deal.

So Mr. Strunce made the recommendation that we would go along with the Town & Country, and I ice he did mention several other accounts that he would like to offer this plan [fol. 2680] to, although we are not sold on this type of plan.

I understand that Town & Country had this particular deal with another bank. That's my understanding; that's what I understand back in 1959.

Q. And that is the reason that you offered this plan to Town & Country?

A. Well, that could be one of the reasons, but let me get back again. In selling time credit dealer paper, you have still got to base your experience, the quality of the dealer, the amount of retail that you receive, and the profitability of that account.

Q. Would you read the last paragraph in the memorandum, sir?

A. "The consolidation plan as mentioned by Bill Brown could serve in part as an answer to the Check Plan offered by Pennco. In addition, as we are trying to increase our home modernization portfolio, I am willing to give the plan a try and would appreciate your comments as this represents a deviation from our usual policy."

Q. Well, is it your understanding that by this deviation the writer thought that you could increase your portfolio in this fashion?

A. I think our writer meant if we went along with this [fol. 2681] particular plan it would increase our business.

In other words, since evidently the dealers had this type of plan, that probably we would meet competition and probably we could secure more business.

Q. And it was in part as an answer to the Check Plan offered by Penneo; isn't that right?

A. What's that, please?

I think that would be part of it.

Q. Yes. That is what the memorandum says, it says "serve in part as an answer to the Check Plan offered by Penneo."

Mr. Reycraft: Will you mark for identification as Government's Exhibit No. 237 a one-page memorandum from Robert R. Strunce, Assistant Cashier, to Mr. Ellis B. Ridgway, dated April 7, 1959?

(Memorandum, the Philadelphia National Bank, dated April 7, 1959, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject "Bonus Plan," was marked Exhibit G-237 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, would you read this full memorandum? It is rather short.

A. Mr. Ridgway from Robert R. Strunce, Bonus Plan.

"Enclosed is a list of dealers Bob Lowry sent to [fol. 2682] me which he states have been solicited by the Pennsylvania Company on their bonus plan.

"Checking back on the volume generated by these dealers in 1958 we find that they gave us about $1,112,000. The thing to remember is that a good many of these dealers, according to Bob Lowry, did not start to give us the bulk of their business until the latter part of the year. Bob Lowry estimates that without the bonus plan it would probably cost us about $2,000,000 to $2,500,000 of home modernization volume.

"I personally do not like the bonus plan idea but whether I like it or not, it's a reality. I believe that if we don't meet this competition we will lose the major portion of our home modernization volume. I also know this plan represents a radical departure from our thinking in not using a reserve just for losses which would have the effect of enabling us to

purchase a more marginal type of credit. Recognizing the reserve enables us to show fewer charge offs, which of course affects our net return, the gross rate to the bank would not be any different than our standard plan at 6½%. Needless to say, we would have to base our credit judgment on the fact that we would NOT have the extra reserve. I recommend, therefore, that we offer the bonus plan to those dealers who have [fol. 2683] been giving us a volume of business."

Q. Now, there is a handwritten note at the bottom of the page, Mr. Satterfield. Is this your handwriting or Mr. Ridgway's?

A. It looks like this is Mr. Strunce's handwriting.

Q. What does it indicate to you with reference to what Mr. Ridgway instructed him?

A. (There was no response.)

Q. I think I should read it.

A. This is not quite clear. Maybe——

Q. It is dated 4/7/59.

EBR—who I take it is Mr. Ridgway?

A. That's correct.

—agreed after discussing with J. W. D. that although distasteful we would offer bonus plan to all dealers.

Question to be resolved is amount retained for payoff. EBR—thinks $1000.

Do you know, sir, whether it was determined to offer the bonus plan to all dealers at this time?

A. I think at that time—I believe at that time that we started off with this bonus plan. We would not try to offer this type of deal to all dealers.

[fol. 2684] You are getting back to the fact again how much business you are going to receive from a dealer.

I think the memorandum indicates the amount of business we are receiving by a list that evidently is not attached—the enclosed list of dealers was giving us a good volume of business.

Now our competition was soliciting this type of business, trying to take the business away from us on a bonus plan.

I think the idea was are we going to lose this business or are we going to try to meet competition.

Q. What is your understanding of what you did?

A. Well, we came out with the bonus plan.

Q. And you met the competition?

A. We met the competition. In fact, we had to.

Q. So you think that although Mr. Ridgway agreed that you would offer the bonus plan to all dealers, you may not have actually done so?

A. I do not believe at the time that was our approach.

Q. Is there any change at this time?

A. Well, we have a bonus plan and once again, I repeat, we try to offer a deal to dealers, quality dealers, that give us a good amount of retail business and so forth.

Mr. Reycraft: Will you mark as Government's Exhibit [fol. 2685] No. 238 a one-page memorandum dated April 22, 1959, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject "Special Home Modernization Plan" and there is attached to the memorandum a two-page outline.

(Memorandum, the Philadelphia National Bank, dated April 22, 1959, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject "Special Home Modernization Plan," together with two-page outline of "Special Home Modernization Plan" was marked Exhibit G-238 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, does this memorandum indicate to you that there was a change being considered in the reserve or bonus plan at the time?

A. This memorandum would indicate a special home modernization plan, as we referred to before, to go along with the bonus deal.

Q. And that this was being done in order to meet competition from Pennsylvania Company?

A. Pennsylvania Company and other companies who were in the field.

Q. All of your competitors in this field?

A. Well, we try to meet competition. I cannot say right offhand how many.

Q. Wherever it is raised?

[fol. 2686] A. I don't know how many people had the bonus at that time, or companies or banks.

Mr. Reycraft: Will you mark as Government's Exhibit No. 239 a two-page memorandum dated April 26, 1960, from Robert R. Strunce, Assistant Cashier, to Mr. H. D. Satterfield, Assistant Vice President.

(Two-page memorandum, the Philadelphia National Bank, dated April 26, 1960, from Robert R. Strunce, to Mr. H. D. Satterfield, subject, "Dealer Bonus Plan," was marked Exhibit G-239 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, the dealer bonus plan referred to in this memorandum is the same bonus plan that you referred to earlier in your testimony; is that correct?

A. It does, but it has to do with one different thing—how you pay the reserves.

Q. Pardon me, sir?

A. How you pay the reserves is what is pointed out in this memorandum. It has to do with the same type of plan of the bonus.

Q. What does it indicate with reference to your terms as compared with Girard Trust Corn Exchange?

A. Well, I think what this has reference to is how they pay the bonus.

[fol. 2687] Q. It is different than the way you pay the bonus?

A. In this memorandum it was different, yes.

Q. Did your bank later change its method of paying the bonus?

A. We changed our method from the one we started off with originally.

Q. And the reason for this, sir, was to meet competition?

A. Well, the change would have to be competitive; that is correct.

Q. That is what the first sentence of the memorandum indicates, or the first paragraph of the memorandum indicates, isn't it?

A. That's correct.

Mr. Reycraft: Will you mark for identification as Government's Exhibit 240 a four-page exhibit consisting of

a memorandum from H. D. Satterfield to Mr. Ellis B. Ridgway dated May 18, 1959, to which is attached a memorandum from Mr. Dudley C. Buzby to Mr. Henry Satterfield, dated May 12, 1959; a memorandum dated May 4, 1959, from Mr. Buzby to Mr. Satterfield; and a memorandum dated January 2, 1959, from Mr. Buzby to Mr. Strunce.

(Four-page exhibit, consisting of memoranda, the Philadelphia National Bank, dated May 18, 1959, from Henry [fol. 2688] D. Satterfield to Mr. Ellis B. Ridgway; dated May 12, 1959, from Dudley C. Buzby to Mr. Henry Satterfield; dated May 4, 1959, from Dudley C. Buzby to Mr. Henry Satterfield; and dated January 2, 1959, from D. C. Buzby to Robert Strunce, was marked Exhibit G-240 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, will you turn to the fourth page of Government's Exhibit 240, which is the January 2nd memorandum, and will you read that memorandum into the record, please.

A. To Robert Strunce from Doug Buzby, subject "Rates —Auto Agents Plan":

"Attached you will find a rate schedule issued by the 2nd National Bank of Philadelphia to Allstate Insurance Co.

"This schedule offers a 4% rate on 36 months as compared to our 5% rate. Our own agents are quite concerned about this matter and feel that they will have to offer the lower rates to their own customers. I have been told that Liberty Real Estate and Fidelity Philadelphia have also offered insurance agents the 4% rate for 36 months.

"In line with the reduced rates 2nd National had [fol. 2689] a contest in which cash prizes were offered to the agents for sending in new business. One of our better agents made an extra $40.00 before Christmas in this manner.

"I feel that competion has become quite stiff in this matter and would appear that a slight 'rate war' is going on. We have to be careful in our own area due to the relationship with the local banks. However,

most of our paper is coming from outside this area and should not present too much of a problem and particularly since this represents an insurance finance program."

Do you want me to read the bottom?

Q. Yes, the handwritten note at the bottom.

A. "4/17/59 HDS & RRS have decided not to reduce direct auto agent paper."

Q. Now, those initials refer to yourself and Mr. Strunce?

A. One is my initials and the other is Mr. Strunce's; that's correct.

Q. Can you tell me, sir, your reason for deciding not to reduce the auto agents' paper at that time?

A. Well, in the auto agents' paper, once again, you determine a rate and how to handle an account; and in the auto agents field there is a great deal of competition [fol. 2690] You can notice that several other banks in the auto agents field offered the lower rate. We felt at that time that we would not meet the lower rate, it would not be profitable enough to meet the lower rate, to handle and give the service as required.

Q. Now, what did you understand the sentence

"We have to be careful in our own area due to the relationship with the local banks,"

to mean?

A. Well, the writer is Mr. Buzby, but my interpretation of that would be, as far as lowering the rate is concerned, he did not want to start a rate war. In other words, if rates are lowered in the community other banks would lower them again. In other words, you start a rate war and we certainly did not want to start a rate war.

Q. So that is the relationship with the local banks that he is referring to?

A. Well, it would be where we would not want to lower the rate, then maybe if we lowered the rate the bank would lower it and you would start a rate war.

We did not want to cut rates.

Q. You did not want to do that?

A. That's right.

Q. Now, the next memorandum in this series in the point [fol. 2691] is that dated May 4, 1959.

What does this indicate to you, sir, with reference to the further competition you were receiving?

A. (There was no response.)

Q. That is a brief memorandum. Would you read that into the record also?

A. This is to myself from Mr. Buzby:

> "Hank, earlier in the year we requested procedure on our Allstate and State Farm Automobile Agent's Plan. As you remember, we are being undercut on rates by other banks in this area. We are not competitive with these rates and are currently making exceptions in order to secure good to excellent applications. Our agents have told us that they are required to offer the lower rates to their customers as policy holders and they are constantly giving us the choice between placing it through Second National Bank and ourselves. Sears recently opened a new store in Abington and we have the opportunity of picking up three additional agents, however, I feel that if we cannot offer them what they are presently securing through other banks, we will not be able to properly serve them. Would you please give this some thought and advise me if we are going to be able to offer rates that are equal to their other sources.

[fol. 2692] "Thank you very much."

Q. What did you do after you received this memorandum?

A. We——

Q. Did you and Mr. Strunce discuss it with Mr. Ridgway?

A. This was discussed, but once again I repeat we did not lower our rate. We think the rate on the agents' paper was a low rate. With one exception that was made, as pointed out in the other memorandum, that occasionally if it is a good credit, long-term employment, it was a good, high-quality account, a good credit account, we would probably make an exception to meet, because the other banks were securing most—a great deal of this auto agent paper, but there was an exception made once in a while on a good credit account to a lower rate.

Q. The memorandum indicates that you were currently making exceptions in order to secure good and excellent applications.

A. That's what I mean by my explanation.

Q. Now, will you refer to the memorandum of May 12, 1959, from Mr. Buzby to you?

Now, he continued to be concerned about your competitive position in rates, did he not?

A. Would you repeat your question on that memorandum?

Q. Yes.

Does the memorandum indicate to you that Mr. [fol. 2693] Buzby continued to be concerned about the competition you were speaking of on rates?

A. That would indicate that, yes.

Q. And that you were still making exceptions in order to meet the competition and that you were still trying to find some type of rate that will be in competition with Philadelphia banks?

A. Well, once again we were making exceptions to rates if the credit warranted.

Q. And he requested you, did he not, to endorse a different type of rate structure in order to give you the opportunity to meet this competition?

A. I think what he means here is that he would like for me to endorse a plan where he can make these exceptions.

Q. Would you repeat that?

A. I think what he meant—my interpretation of this memorandum would be that he wanted me to endorse a plan where he can make these exceptions.

Q. So that he could meet them as they came up; so that he could meet the competition as it arose?

A. If the credit warranted.

Q. And your recommendation to Mr. Ridgway on May 18, 1959, was that you continue this policy of making exceptions to meet the competition?

[fol. 2694] A. That is correct.

Q. Mr. Satterfield, Government's Exhibit 232, which is a memorandum we discussed earlier from Mr. Erb, indicates that Mr. Erb at that time could charge any lesser rate he wanted.

Is there any difference between the authority which he

had and the authority which is referred to in this memorandum as far as it affects Mr. Buzby?

The handwritten notation at the bottom indicates that he had authority to lower his rates, doesn't it?

A. Well, once again, getting back to an authority to lower a rate, once again, if a customer would come to the bank, the branch manager would have authority to offer a lower rate if he thinks it warrants the rate being lowered.

Of course, this is based on bank relationships, which I think you will find is a practice of all banks.

Mr. Reycraft: Will you mark as Government's Exhibit No. 241 a one-page memorandum which consists of two separate sections with different dates, and it is headed "Floor Plan Rate." The first two paragraphs are dated 8/3/59 and the second section is dated 8/6/59.

[fol. 2695] (One-sheet document headed "Floor Plan Rate," bearing dates 8/3/59 and 8/6/59, and bearing typewritten name, Robert R. Strunce, was marked Exhibit G-241 for identification.)

By Mr. Reycraft.

Q. Mr. Satterfield, what kind of rates are being referred to in Government's Exhibit No. 241?

A. Can I finish——

Q. Yes, sir. I thought you had finished reading.

A. Getting back to the first paragraph, John Galligan and Earl Caffrey—I think the rate they are referring to there is the wholesale rate.

Q. On what type of paper?

A. Automobile indirect paper.

Q. Do you recall whether you increased your wholesale rate at that time?

A. Well, I think at one time we increased our wholesale rate. When prime increased, I think that was at the time that this happened.

Q. Was there any loss in business? Did you lose some business to another commercial bank as a result of it; is that correct?

A. What's that, please?

[fol. 2696] Q. And you lost some business to another commercial bank as a result of it; is that correct?

A. I don't think so, no. This is a competitor who was trying to take the business away from us at a lower rate. I think you will find this memorandum will indicate that.

Q. Yes.

My understanding is that the competitor took some business away because of their lower rate. Is that right?

A. Not on this particular account, no, sir. They did not take the account away from us.

Q. What does this second sentence of the memorandum mean—"Both T. D. Keyser and Brenninger have gone into the Montgomery Trust because of the increase in our wholesale rate?"

A. I think what he meant by that, to clarify that, is that T. D. Keyser and Ralph Keyser went into the Montgomery Trust Company to talk about rates, but, T. D. Keyser and Ralph Keyser did not go with Montgomery Trust; they stayed with us.

Q. What did your bank do as a result of their talking with this other bank?

A. In talking with this other bank?

Q. Yes. Did you make any changes in your rates?

[fol. 2697] A. I don't remeber talking to the other bank. I did not talk to the other bank.

You see, in automobile paper you have competition every day calling on automobile dealers. In this instance we made a rate, an increased rate, in our wholesale.

Well, when you increase rates, naturally dealers get concerned. Another bank or finance company, whoever has solicited the business, may come in and say, "I will give you a lower rate."

This is a concern——

Q. You are concerned about that?

A. I say this was the dealer's concern about that and naturally they called my two road men in to discuss this account and he was concerned because we raised our rate and competition was offering a lower rate.

Q. Did you make any change in your rate to meet the competition?

A. On 8/3/59 we increased our rate and to the best of my knowledge no change was made.

Mr. Reycraft: Would you mark as Government's Exhibit No. 242 a one-page memorandum from Mr. Cliff Gillam to

Mr. Henry Satterfield, dated March 25, 1960, subject "Auto Agent Plan."

[fol. 2698] (Memorandum, the Philadelphia National Bank, dated March 25, 1960, from Cliff Gillam to Mr. Henry Satterfield, subject "Auto Agent Plan," was marked Exhibit G-242 for identification.)

By Mr. Reycraft:

Q. Would you read the paragraph, sir, beginning, "In view of the above——"

A. "In view of the above, we are not at all competitive with our schedule of $4.00 for 24 months, $4.50 for 30 months and $5.00 for 36 months. We are feeling this in our volume which has been down in recent months averaging around $50,000.00 for January and February whereas formerly it would be running $100,000.00 but with no increase in trend. We have lost all of our State Farm agents and our remaining loyal All State agents are finding it harder and harder to justify giving us paper. In addition, because of our higher rates, I know they do push our boys on unusual deals pretty hard.

"Accordingly, we feel that some serious consideration should be given to offering a plan competitive with Pennsylvania Co. as follows

[fol. 2699] $4.00 on New 24 months
$4.50 on New 30 and 36 months
$5.00 on Late Model Used
$6.00 on Older Model Used."

A. Would you like me to continue?
Q. Yes, you might as well complete it.

A. "It also seems to me that we would benefit by giving out imprinted literature as several of the other banks are. It seems to me this might be worthwhile of and by itself regardless of the attraction it should be to the agent in reducing his promotional expenditures."

Q. Do you know whether the change that was recommended was made?

A. I don't think this rate was changed when he wrote this in March of '60.

Q. All right.

[fol. 2700] Mr. Reycraft: Will you mark as Government's Exhibit No. 243 a three-page exhibit dated December 9, 1960, from H. D. Satterfield to Mr. E. B. Ridgway, subject T. D. Keyser, and there is attached as the third page a memorandum dated December 2, 1960, from John J. Plunkett to Edward A. Tobin.

(Three-page exhibit dated December 9, 1960, from H. D. Satterfield to Mr. E. B. Ridgway, the third page being memorandum dated December 2, 1960, from John J. Plunkett to Edward A. Tobin, was marked Exhibit G-243 for identification.)

Q. With reference to the first paragraph, the sentence, "T. A. also wanted to know if we would continue operating the way we are now after the merger"

Can you explain what you meant at the time you wrote that sentence?

A. Well, Mr. Keyser at that time wanted to know—the merger had been announced, and he wanted to know if we would continue operating the way the Philadelphia National Bank is now operating. We operate on a decentralized basis, and we handled a dealer in Lansdale, and Girard, I think their automobile paper is centralized, and he was wondering if he would be operating locally instead of coming——

Q. In other words, he didn't want to have to come downtown to do business?

[fol. 2701] A. That is what he meant, yes.

Q. It indicates, does it not, that Montgomery Trust was still active on a rate basis?

A. Montgomery Trust, that is correct.

Q. And on the second page of the memorandum it indicates that you felt that if you lost T. D. Keyser you would lose other dealers as well?

A. That's a possibility, yes. Other dealers in Lansdale.

The Court: Let's take our break at this time.

(A 10-minute recess was taken at 11:10 a.m.)

Mr. Reycraft: With reference to Government's Exhibit No. 239, Mr. Degnan's notes indicate—and Mr. Degnan is the Government attorney who has examined this document, the original of that—there appears on the original the following note: "To what extent is this plan used in out of county areas?"

And I would like to have the original checked——

Mr. Littleton: If Your Honor please, I know nothing about this note that Mr. Reycraft speaks about, because we processed exactly what the Government asked us to process and he made copies.

Mr. Reycraft: Well, the original shows whatever it shows.

Mr. Littleton: We will endeavor to get the original, but [fol. 2702] we made a copy of what the Government asked us to make.

Mr. Reycraft: Will you mark as Government's Exhibit No. 244 a one-page memorandum dated April 29, 1960, from Robert R. Strunce to Mr. Ellis B. Ridgway, subject Bonus Plan—Home Modernization.

(One-page memorandum dated April 29, 1960, from Robert R. Strunce to Mr. Ellis B. Ridgway, was marked Exhibit G-244 for identification.)

By Mr. Reycraft:

Q. Mr. Satterfield, will you read Government's Exhibit 244 in its entirety.

A. To Mr. Ellis B. Ridgway from Robert R. Strunce, subject Bonus Plan—Home Modernization.

> "This plan is not being used by any of the county officers with the exception of the Madison office. Madison has two dealers on the plan—Competition is Penco and Girard Trust.
>
> "The Montgomery Office has Peoples National Bank as competition. Their charge is $6.00 per $100 per year and they give the dealer 1% per year only on deals in excess of $500. Total reserve is returned to dealer once a year around Christmas.
>
> "The remaining county offices indicate that they [fol. 2703] have no dealers and there is no competition. However our offices have not promoted our Home Modernization Plan to any extent."

Q. Will you read the handwritten note.

A. I will try.

"Henry Shouldn't this be discussed and a deal worked out to increase volume of desirable Home Modernization business at adequate rates?"

Q. Ellis is Mr. Ridgway, is he not?

A. Yes.

Q. And Henry is yourself?

A. That's correct.

Q. I hand you Government's Exhibit 239, Mr. Satterfield. Will you refer to the second page and read the handwritten note and tell me what you meant by that.

A. You mean by the memorandum, "Taken care of 5/2/60"?

Q. Is that your initials?

A. That is my initials.

Q. Do you know what was taken care of? I might point out that that note was written after the memorandum of April 29, 1960, which contains a note from you to Mr. Ridgway. Can you tell me if there is any connection between the two?

A. I think, in reference to the two memorandums, as you know—well, maybe you don't know—but in Philadel- [fol. 2704] phia we have—and I mentioned this before—a Home Modernization Department which is handled by Robert Lowry, and in our branches we have a branch set up where we handle personal loans and indirect paper, but we have not done very much home modernization paper in our branches, and I think this memorandum, it looks like an inquiry, how many dealers in our branches are using this bonus plan.

Q. Will you indicate which memorandum you are referring to?

A. I am referring to April 29, 1960. You gave me two of them, by the way.

Q. Yes.

A. And it looks like Montgomery office was mentioned, and I know our Montgomery office does very little home modernization paper.

Q. All right, if you don't know.

A. I say, Montgomery office does very little home modernization paper. They have the Peoples National Bank as a competitor, with a $6 per hundred per year rate, with a one per cent reserve, and you asked me what I thought was meant by Mr. Ridgway's note; is that correct?

Q. Yes, what you said you took care of on May 2, 1960, on G-239.

Let me ask you, sir, whether, when Mr. Ridgway wrote the note to you which apepars on Government's Exhibit [fol. 2705] 244, saying, "Shouldn't this be discussed and a deal worked out to increase the volume of desirable Home Modernization business at adequate rates," was this a matter you took care of, do you remember?

A. No, this was not the matter taken care of. I think here the best I can remember the matter taken care of was a memorandum of April 26, 1960, and Mr. Ridgway, my interpretation meant, as you notice, Montgomery office, maybe some kind of plan can be worked out where he can secure more home modernization paper in our Montgomery office, because our paper had a lower rate, because in that particular territory we were receiving very little home modernization paper. That would be my interpretation of his memorandum.

Q. Will you examine Government's Exhibit 194, Mr. Satterfield. This memorandum was written to you, was it not?

A. That is correct.

Q. Would you read the paragraph beginning, "Our competition for this dealer's paper. . . ."

A. "Our competition"—this is Sylvan Pools—"Our competition for this dealer's paper has been with the folks from Girard Trust Corn Exchange. Mr. Clark and I visited this account early in February with the idea of discussing a possible 'raise in rate' which I felt could be accomplished if and when the merger became a reality, and competition [fol. 2706] between banks eliminated."

Q. You understood this reference to be to the merger between the Philadelphia National Bank and the Girard Trust Corn Exchange Bank?

A. That is correct.

Q. In the note which appears on the second page of this exhibit, the next to the last line, I will read the sentence:

"I think performance-wise we wouldn't have to be concerned (if good credit judgment is used) but this paper in N.J."—which I think you mean New Jersey—"won't generate additional business for our bank."

Can you tell me why you understood that this paper wouldn't generate additional business for your bank?

A. In New Jersey.

Q. Yes.

A. My interpretation of this would be, and I believe what Mr. Strunce meant, it could be checking accounts or deposit business for our bank.

Q. And you didn't think you would get much of this business from Jersey?

A. That type of business. In other words, they were services. I think that is what he meant. I am not sure, but that would be my interpretation.

Q. Do you know where the home office of Sylvan Pools is?

[fol. 2707] A. Yes, in Doylestown, Pennsylvania.

Q. What county is that in?

A. I believe that is in Montgomery County.

The Court: Bucks.

The Witness: Bucks County.

Mr. Reycraft: That is all I have, Mr. Satterfield.

Cross-examination.

By Mr. Littleton:

Q. Mr. Satterfield, you said at the beginning that you had direct and indirect loans in this personal and consumer loan field.

A. Yes, sir.

Q. What is the difference between direct and indirect?

A. Direct is direct to the public and indirect is dealer paper.

Q. And all these exhibits that Mr. Reycraft has been showing to you and getting you to read from and comment upon, beginning I think it is from 231 and going through 244, and G-194 have to do with indirect paper; is that correct?

A. Some had to do with indirect, but agent paper is direct paper. You would consider that as direct.

Q. You count that as direct?

A. That is correct.

[fol. 2708] Q. Which do you count as indirect?

A. That would be home modernization. I think some mention was made about particular automobile accounts. That would be also indirect paper.

Q. Dealer paper?

A. Dealer paper, dealer auto and dealer home modernization; an agent paper you would consider direct paper.

Q. Now let us talk about the home improvement loans first. Can you tell us what percentage of your volume, your dollar volume in your department, personal and consumer loans, is home modernization paper?

A. I would say approximately 10 per cent.

Q. Do you know what your volume is generally?

A. I know what my outstanding is, yes.

Q. What is your outstanding?

A. My outstanding is about 47 million 800 and some thousand dollars. That is not including floor plan or participation. That is retail outstanding; I believe we have about $4,700,000 outstanding home modernization paper.

Q. That is where you get your approximate 10 per cent figure?

A. Yes.

Q. Is that mostly dealer paper?

A. Home modernization. That $4,700,000 is dealer paper.

Q. All dealer paper?

[fol. 2709] A. That is correct. Of course, we have personal loans for home modernization, but I have no record of that because that is a direct loan.

Q. On these home improvement loans, what is your competition generally for home improvement loans?

A. Well, the home modernization field is a highly competitive field.

Q. What?

A. Highly competitive. You have your banks, your commercial banks, you have your finance companies, you have your mortgage service corporations, which include like Peoples National bond. You have your building and loan associations, your sales finance companies.

Q. And of the commercial banks in Philadelphia, what are your competition in home modernization loans?

A. Well, we have, I think you would know, one bank is vey highly competitive. We have about three banks, I would say.

Q. The First Pennsylvania Company?

A. The First Pennsylvania Company, I would say—

Q. That is the biggest?

A. That is our big competition.

Q. How about Liberty Real Estate?

A. Liberty Real Estate is competitive.

Q. Mr. Sienkiewicz was here the other day. How about [fol. 2710] Central-Penn?

A. Central-Penn I don't know for sure. I think they are in the field in a small way—dealer paper. Sure, they have a direct loan, but indirect I think they are very small, in home modernization dealer paper.

Q. Any of the other commercial banks in Philadelphia?

A. Well, they do on a direct basis. I don't know of any offhand on an indirect plan, but they do have other banks in the branches that have a dealer plan, in the suburban territory.

Q. I beg your pardon?

A. In the suburban territory, like Peoples National, and so forth.

Q. Peoples National where?

A. They are located in Montgomery. That is in Norristown.

Q. I understood you to say in answer to Mr. Reycraft's quesiton that in your county branches you didn't do much in home modernization loans; is that correct?

A. That is correct.

Q. But the competition is there in Montgomery County that you just gave us, Peoples?

A. Peoples is one of our competitors in Montgomery County.

Q. Referring to this G-194, this Sylvan Pools memorandum, what is your competition, for instance, with Sylvan [fol. 2711] Pools paper?

A. Well, I understand from our road man, or from the manager, Mr. Lowry, the competition there is Pennsylvania Company. New Jersey Bank and Trust Company is calling

on the account pretty regularly. Trenton Trust has approached the account. Industrial Credit Corporation in Chester, which is an individually owned finance company, has offered a deal, and also I understand Commercial Credit has also called on the account, and I know Sylvan Pools pool is being handled by Strawbridge and Clothier, and they have their own finance plan, and I think they do some type of financing with Fidelity-Philadelphia in the commercial loan department.

Q. In the Fidelity-Philadelphia?

A. Yes, sir.

Q. And did you mention the Commercial Credit Corporation?

A. I understand from my field man that Commercial Credit has contacted the account for business.

Q. Will you look at G-244. This is the one in which you mentioned the Peoples National Bank as competition with the Montgomery office of your bank.

A. Yes, sir.

Q. And you say, "The remaining county offices indicate that they have no dealers." What do you mean by that?

A. I think what that memorandum means, they do not [fol. 2712] have any home modernization dealers they are doing business with.

Q. Are they doing any direct business?

A. They would be doing direct, but this memorandum, I think, has to do with indirect paper.

Q. And as to that, this memorandum indicates there is no competition?

A. Well, I think this memorandum——

Q. Do you agree with that?

A. "The remaining county offices indicate that they have no dealers and there is no competition. However, our offices have not promoted our Home Modernization Plan to any extent."

Well, the reference to no dealers, naturally, they would mean they have no dealers on the indirect plan.

Q. And it is that competition that is referred to in the memorandum?

A. Sir?

Q. And it is that field of competition which is referred to in the memorandum? They do have direct?

A. They do have direct competition. I think what he means there—I am trying to think—my interpretation of this is the competition is not too keen as far as the indirect paper up there is concerned. That would be my interpretation of what Mr. Strunce meant in this memorandum, but they do have competition in direct.

[fol. 2713] Q. In the automobile financing what types of automobile financing do you do?

A. Well, we have the indirect plan, and, of course, we have our direct plan, and referring back to other memorandums, we did do some agent, auto agent paper.

Q. Tell us what you mean by that last.

A. That is the direct plan that we discussed this morning. The memorandums had to do with the other banks in the direct auto agent plan. This is a plan where auto agents, say, for example, for All State, would generate paper, as I mentioned this morning. They try to sell the insurance, but they feel that they can be more competitive in their insurance program if they had a finance plan, and they try to get the low type of plan so that they can sell the financing. That way they would get the insurance.

Q. What is your competition in the automobile financing?

A. Well, once again, automobile financing is highly competitive. You have your banks, commercial banks, you have your finance companies, your sales finance companies, and, of course, it is highly competitive as far as your agent auto plan is concerned. You have your personal loans. All banks, as you know, quite a few banks, are in the direct loan paper.

Q. In Philadelphia itself, among the Philadelphia commercial banks, which is your biggest competitor?

[fol. 2714] A. In Philadelphia itself I would say Pennsylvania, as far as a bank is concerned, is our largest competitor.

Q. Incidentally, have you any idea of the relationship between the volume in First Pennsylvania Company and the volume in the Philadelphia National and Girard Trust?

A. Well, I know Pennsylvania Company—of course, we have been in the field since 1955—Pennsylvania Company has a large outstanding. I don't know exactly what their outstanding is, but I know it is way over, I would say, a hundred million.

Q. As compared to yours of what?

A. Well, total, everything included, floor plan, right now would be about $52 million.

Q. Is Girard less than that?

A. I would say Girard, including everything, I think they are a little higher than that, but Pennsylvania Company, I don't know, but I think you will find they will be pretty close to $175 million. I am not too sure on that exact figure.

Q. In other words, it is more than you and the Girard put together?

A. Yes, that I know for sure, yes.

Q. And what other commercial banks in Philadelphia are competing in this?

A. Provident Tradesmens is competing on an indirect plan.

Q. They are larger than you in volume?

[fol. 2715] A. That I cannot answer. I do not know for sure what their outstanding is. Central-Penn is also another competitor in the indirect field.

Q. Fidelity-Philadelphia also?

A. Well, they are a competitor in personal and direct and agent paper. They do quite a bit of agent auto paper.

Q. This business you are doing in a great many of your branches too, are you not?

A. Yes, sir.

Q. Do most of the Philadelphia commercial banks having branches in the areas which you have branches compete in this line in the counties?

A. I would say quite a few of them, yes, sir.

Q. And in addition to that do you have local banks?

A. Yes, sir.

Q. Such as I think the Security Trust Company of Pottstown was mentioned in Mr. Erb's memorandum?

A. And Montgomery Trust Company also.

Q. And in New Jersey you have the New Jersey banks such as you mentioned before in connection with the Sylvan Pools?

A. And you also have competition, automobile indirect, from New Jersey.

Q. Aside from commercial banks, what is your competition in this automobile financing?

[fol. 2716] A. Well, your sales finance companies, like Commercial Credit, CIT, Associated Discount.

Q. Will you look at G-57, which the Government has marked, which has been referred to many times in this case. Look at the bottom of page 123. Will you read what it says there.

A. "A second important field of essentially local competition is consumer credit. Exhibit C shows the competition which commercial banks receive in this field from other kinds of institutions, such as credit unions, sales finance companies, and personal loan companies. Schedule 7 sets forth how the share of this market held by Philadelphia's commercial banks is divided. Philadelphia National has 10%. Girard has 15%."

Q. Go ahead.

A. On page 124: "The aggregate 25% share of the Resulting Bank is to be compared with 34% held by its largest local competitor. Again it is to be noted that these figures do not include commercial banks outside Philadelphia even though within the service area, nor the large number of other institutions treated in Exhibit C."

Q. Now will you turn to page 96, which is Exhibit C referred to in what you just read.

Incidentally, did you agree with that statement [fol. 2717] that you just read from page 123?

A. Yes.

Q. On page 96 will you read us Exhibit C which is referred to in what you just read. What is it headed?

A. "Sales Finance Companies."

Q. Read it.

A. "In October 1959 there were approximately 100 motor vehicle sales finance companies authorized to engage in business in the four Pennsylvania counties included within the resulting bank's service area. Equivalent statistics are not available for New Jersey or Delaware. The Pennsylvania figures do not include all sales finance companies, only those licensed under the state Motor Vehicle Sales Finance Act, although motor

vehicle financing undoubtedly comprises the bulk of all sales financing business.

"There are no published statistics on the dollar amount of sales financing business done by finance companies (motor vehicle or otherwise) as compared with the amount of such business done by commercial banks. If we assume that of the 52,634 new vehicle registrations in Philadelphia County alone in 1959, 65% were financed at an average amount of $2500, the total dollar amount of financing in that year in [fol. 2718] that county alone would exceed $85,000,000. On the same basis there would have been over $69,000,000 of new vehicle financing in 1959 in Delaware and Montgomery counties. It is believed that the major share of this business is probably handled by motor vehicle sales finance companies. Accordingly, the competition they furnish commercial banks in this field is active and substantial."

Q. Do you agree with those statements, Mr. Satterfield?

Mr. Reycraft: You haven't established that he has prepared this exhibit or he is familiar with any of these facts.

The Witness: I was going to say, as far as the exact figures are concerned or the total, a record was made of this, but I will say that sales finance companies are certainly competitive in the automobile field.

Mr. Reycraft: But you don't know about any of these figures?

The Witness: The figures, I did not arrive at the figures, no, sir.

By Mr. Littleton:

Q. Look on page 137. I believe this is also G-44. Will you read those figures. Read us what the schedule is.

[fol. 2719] A.

	"Consumer Credit (Millions)	% of Total
First Pennsylvania Banking and Trust Company	$180	34%
Philadelphia National Bank	54	10
Girard Trust Corn Exchange Bank	80	15
Provident Tradesmens Bank and Trust Company	70	13
Fidelity-Philadelphia Trust Company	25	5
Central-Penn National Bank	65	12
Other Philadelphia Commercial Banks	60	11
Total	$534	100%"

Mr. Littleton: Thank you very much, Mr. Satterfield. That is all I have.

[fol. 2720] By Mr. Price:

Q. Mr. Satterfield, will you turn to Exhibit 240.

A. May I have a copy?

Q. The last page, the last paragraph, where reference is made to our area, our whole area.

What is our whole area? Do you find that about the middle of the last paragraph?

A. We have to be careful in our whole area due to the relationship with the local banks.

Q. What is our own area?

A. Well, I figure in this particular memorandum he was considering the area of Montgomery—Montgomery County, Norristown; our bank in Norristown's area.

Q. So that was a reference to Montgomery County?

A. That was a reference to Montgomery County; that is correct.

Q. And the sentence immediately following:

"Most of our paper is coming from outside this area,"

means that it originated in New Jersey and Delaware and other counties of Pennsylvania?

A. Philadelphia County, yes, different parts.

Q. All right. Thank you.

Now will you look at G-194, the Sylvan Pools exhibit? [fol. 2721] Do you have it, Mr. Satterfield?

Do you know how much of Sylvan Pools' business is financed by this kind of an operation, through banks or otherwise?

A. Well, I was told by my field man—once again I do not call on the Sylvan Pools account, but I was told by my finance man that the retail financing of Sylvan Pools has been low; getting back to Girard and the Philadelphia National Bank doing business with Sylvan Pools, I understand that the percentage has been about 30 per cent. That is the understanding that I was told by my field man that he secured from the dealer.

Q. So if that figure is accurate, 70 per cent is handled either by the purchasers of the pools themselves by paying cash or by their own financing arrangements with their own banks somewhere else?

A. I would say yes.

Q. And when they finance through their own bank they may either give the bank a note or some other sort of a pledge at varying rates of interest, depending on what the bank charges?

A. That's correct.

Q. And all of that takes place in the States of New Jersey, Delaware, Maryland, and Pennsylvania, does it not? [fol. 2722] A. Well, yes. Of course——

Q. So that the competition for Sylvan Pools' financing of their product is over a very large area apart from these four states as I mentioned?

A. I would say so.

Q. And the banks and finance companies and other lending agencies in those areas?

A. I would say so.

Q. Then you mentioned Strawbridge & Clothier.

A. Yes.

Q. They also sell Sylvan Pools and finance them themselves at their own rates?

A. That's my understanding.

Mr. Price: Thank you. That's all I have, Mr. Satterfield.

Redirect examination.

By Mr. Reycraft:

Q. Mr. Satterfield, if you will refer to Government Exhibit No. 57, the Schedule 7, which is a schedule of figures indicating the consumer credit business of Philadelphia commercial banks, this exhibit, in your knowledge, also indicates, does it not, that your bank and Girard Trust Corn Exchange Bank and the other banks on this page are competitors of your bank in this field?

[fol. 2723] A. Oh, it would indicate that, yes.

Q. You don't have any doubt about this either, do you?

A. Well, no. The figures there will show that they are competitors.

Q. Do you know from your own knowledge that your bank is a competitor of Girard Trust Corn Exchange Bank for this type of business?

A. Yes. They would be a competitor.

Q. You also testified, I believe, that Philadelphia National Bank entered the consumer credit field in 1955?

A. Well, I would say, to clarify that, that we actively got into it in 1955. I came with the bank in '54, but we really went after installment business, I would say, early 1955.

Q. Do you know approximately what the volume of consumer credit business was which the Philadelphia Nation Bank had in 1955?

A. Gee, I couldn't give you an accurate figure on that.

Q. Was it substantially less than what is indicated on Schedule 7?

A. Oh, yes. It would be substantially less.

Q. So that you have increased your business from a minimal amount up to $54 million since 1955; is that correct?

[fol. 2724] Mr. Littleton: Objected to. He didn't say anything about a minimal amount.

By Mr. Reycraft:

Q. How much did you have? Was it less than $5 million?

A. That I increased our business since?

Q. No.

What was the amount of consumer credit business that you had in 1954 and 1955, whichever figure you can remember? Was it less than $5 million?

A. I don't remember any exact figure, exactly what it was. I would say it was less, but I don't know what the figure would be.

I just don't know offhand what our outstanding was at that time, but I would say it was less than $5 million.

Q. And you have increased from less than $5 million to $54 million as of December 31, 1959?

A. Well,——

Q. That is what the figures show?

A. That is what the figures show.

Mr. Reycraft: That's all.

By Mr. Littleton:

Q. Just one more question about this Schedule 7. Do you have it before you?

[fol. 2725] A. What page is that, sir?

Q. Page 137 in the application.

A. What page is that on?

Q. 137.

Is that direct or indirect?

A. The $54 million?

Q. Yes.

A. That's indirect and I would think that includes floor plan participation, and so on. That would be direct and indirect also.

Q. Direct and indirect?

A. Yes.

Mr. Littleton: All right. That's all. Thank you very much.

Mr. Reycraft: That's all, Mr. Satterfield.

[fol. 2726] Mr. Reycraft: I would like to mark at this time as Government's Exhibit 245 a set of lines of credit which were furnished to us by the Philadephia National Bank originally in response to Question No. 6 directed

to the Philadelphia National Bank; and thereafter the documents were furnished with the complete information contained in the credit reports, including the amounts of the lines of credit and by bank, except that the names of the companies involved have been omitted by agreement.

(Pamphlet of set of lines of credit furnished by the Philadelphia National Bank was marked Exhibit G-245 for identification.)

OFFERS IN EVIDENCE

Mr. Reycraft: I have no further witnesses, Your Honor, and I would like, if this is the appropriate time, to move the admision of documents which have been marked.

The Court: We can't get to it earlier than right now.

Mr. Reycraft: I move the admission of Government Exhibits 1 through 245 into evidence.

I wish to state that with reference to Government Exhibit No. 57, which is the application, there are a number of statements in the application which are in the nature of [fol. 2727] conclusionary statements with which we do not necessarily agree, but nevertheless I wish to offer the exhibit in the case.

With reference to Government's Exhibit No. 123-A, this is the complete letter of Mr. Bicks, as to which Exhibit 123 is an excerpt, and we wish to offer 123, but not 123-A.

Mr. Littleton: I object to it. If he wishes to offer part of Mr. Bicks' letter, if he is going to offer Mr. Bicks' letter, I think it must be in its entirety.

We have no objection to 123-A. We do object to 123.

If Your Honor please, I am addressing myself just to that at this moment, because Mr. Reycraft did. We have objections to certain others, which we will be ready to present.

The Court: Your point is that you only want to offer so much of the letter?

Mr. Reycraft: Yes, sir.

The Court: The whole letter, 123-A, which is not encompassed within your exhibit——

Mr. Littleton: Yes, sir. That's right.

[fol. 2728] The Court: And you object to it?

Mr. Littleton: I object to it.

Mr. Reycraft: They may offer the remaining part.

The Court: As to that, your objection is overruled. I will accept 123 in evidence.

(Exhibit G-123 admitted in evidence.)

The Court: Now, what objections do you have to certain others?

I am ready to take them up seriatim or any other way. I will give you a moment to get started.

Fundamentally, G-1 through G-45, is it, or thereabouts, are pretty much Gaffey tables, are they not?

Mr. Reycraft: Yes, sir.

Mr. Littleton: Our first objection, if Your Honor please, would go to G-7 revised because we think that the percentage which has been worked out on certified and officers' checks is not correct. We think it should be 29.; it is shown as 36.6.

Mr. Price: It is obvious from the face of the exhibit. The total for the Philadelpia National and Girard as stated on the exhibit adds up to 29 instead of 36.6.

Mr. Reycraft: We will check it, Your Honor; and if that [fol. 2729] shows we will change it on the record here.

The Court: G-7 revised; where is that percentage point?

Mr. Reycraft: I would like to check that and if it should be changed we will change it.

The Court: Are you talking about the IPC deposits?

Mr. Price: On G-7, the three columns on the right-hand side of the exhibit, and the line is No. 6, certified and officers' checks. It shows the percent of total as 17.4 for the Philadelphia National and 11.6 for the Girard.

Now, the sum of those two figures is 29, not 36.6.

Mr. Reycraft: That is correct. I agree with you, and it should be 29 per cent.

Mr. Littleton: With the correction, I withdraw my objection.

The Court: Very well.

Mr. Reycraft: May I ask the reporter to mark on the record or show on the record that Government's Exhibit No. 7, the figure six lines down at the far right-hand side, which is shown as 36.6 should be 29 per cent?

The Court: Very well.

[fol. 2730] What is next?

Mr. Littleton: G-11, "Number of Commercial Banks and Offices in the United States, 1900-1960."

We object to that on the ground of irrelevancy, and may I say, if Your Honor please, that we have the same objection as to G-12, which is, "Number of Commercial Banking Facilities in Pennsylvania as of December 31 of the Years 1945, 1950, 1955, and 1959;" and virtually the same objection to G-14, as revised, headed "Major Structural Changes Affecting the Number of Commercial Banks and Commercial Bank Offices in the United States," for certain years.

The ground of our objection in each of those three cases being the irrelevancy of the whole United States or the whole State of Pennsylvania with relation to the figures.

Mr. Reycraft: Your Honor, our purpose in offering these limited statistics with reference to commercial banks as a whole is to provide a background for the market setting in this particular area that we have been referring to.

The Court: I will overrule the objections. I will admit them.

(G-11, G-12, and G-14 admitted in evidence.)

[fol. 2731] Mr. Price: With reference to G-13, I point out that there are a number of "NA" designations, for which the Government has figures, or at least they could have been computed; and except for the fact that the table is incomplete and inadequate, therefore, to that extent misleading, I would have no objection to it.

But if I may supply the figures that are missing at a later time, then I would have no objection to the exhibit.

The Court: You may. You may.

I may say that because something is on a piece of paper and it doesn't add up right, the Court is not going to be impressed with wrong addition or the lack of information.

Mr. Price: I am not speaking of addition at this time, Your Honor, but a substitute for the letters "NA," which I assume mean not available.

The Court: All right. At any time you want to do it, you may, Mr. Price.

What is next?

Mr. Littleton: G-16-A, if Your Honor please, the so-called Keith report, the big Keith report.

We object to that on the ground that although you allowed the testimony from it, the report as a report is [fol. 2732] entirely irrelevant.

May I say that I am anticipating here that (copy illegible) 27 is the summary of the Keith report and I am going to object also to that when the time comes, but may I say at this point that if 127 should be admitted, then I withdraw my objection to 16-A and believe that it should also be admitted.

Mr. Reycraft: Your Honor, once again, I think that this report is quite important as showing the trend of concentration of commercial banking in the four-county area, that its reliability is indicated by the fact that the two defendant banks were two of the sponsors of the report, and it contains information which the banks relied upon in making their expansion plans, and it showed the increase in concentration which we believe contributed to some degree to the present merger.

Mr. Littleton: Your Honor, I am simply going to say that the real basis of my objection is overloading the record.

The Court: I will accept it. Overruled.

(Exhibit G-16-A admitted in evidence.)

Mr. Reycraft: With reference to Government's Exhibit No. 18, I understand that Mr. von Starek wishes to prepare a substitute, on the basis of additional figures.

[fol. 2733] Mr. von Starek: Yes, I would.

Mr. Littleton: To explain that, Your Honor, G-18 was incomplete in the form in which it was furnished. We are now furnishing the additional information.

What will you do, offer that as G-18 revised?

The Court: I have G-18 and G-18 revised. What is this?

Mr. Littleton: Second revision, I guess.

The Court: Third edition?

Mr. Reycraft: Mr. von Starek informed me this morning that the data which he gave us originally on which 18 and revised 18 were based were incomplete and that, therefore, he is furnishing a complete and recomputed exhibit, which I now offer.

The Court: All right. We will take it for a second revision.

(G-18 (second revision) admitted in evidence.)

The Court: Next? What is the next one?

Mr. Littleton: The next one as to which I comment is G-21-A, because it is the first exhibit in this group that gives names of customers, and I now ask that the names of customers, the confidentiality of the names of customers, be protected.

Mr. Reycraft: No objection.

[fol. 2734] The Court: Very well.

Mr. Littleton: I won't raise the question again because it will apply to all the other exhibits which contain names of customers.

Mr. Reycraft: As far as I know, I have no objection to that. If we do have them, I will let you know.

The Court: G-21-A, I don't think, has any names on it.

Mr. Reycraft: 21-A?

The Court: Oh, yes, it does. Therefore, I want the reporters, beginning with this one, to keep them separate and not put them in the general files.

Mr. Littleton: I am wondering if it would be possible, if Your Honor please, after the case is closed, if we could withdraw these and give the information in the exhibits without any names.

Mr. Reycraft: I have no objection to that.

The Court: All right. You may do that.

Mr. Littleton: That will save the reporters a burden.

Mr. Price: I ask that that be done as well for any copies of Girard exhibits.

The Court: That's right; exactly right.

Mr. Littleton: G-22, again, it is a matter of correct figures. [fol. 2735] In the very last line——

The Court: That has been revised on my copy. That is the corrected copy, is it not?

Mr. Reycraft: Yes, sir. That is corrected.

The Court: All right

Mr. Littleton: With the correction of the last line of the exhibit, we withdraw our objection.

The Court: The next exhibit?

Mr. Price: As to Exhibits 23 and 24, sir, the last two lines, percent of total, number of loans and dollar volume, the figures are fairly close to what is really accurate.

Practically all the other figures on those two exhibit

are off or inaccurate. The calculations were not properly made; but in due course we shall submit exhibits which cover this general material and, therefore, if I may make reference to that at that time,——

The Court: You may.

Mr. Price:—the two can be tied together, but I caution you while I have the exhibits here before me.

The Court: 23 and 24?

Mr. Price: 23 and 24, because of the general inaccuracy of the figures of the various items.

The Court: All right.

[fol. 2736] Mr. Littleton: If Your Honor please, G-25, we have checked and there are many errors in the last four lines and in the third line of it; and the same errors are perforce carried over to G-27, since it is an exhibit showing a combination of figures.

Mr. Reycraft: We will check those.

The Court: All right. 25 and 27 are to be rechecked.

Mr. Reycraft: Is that 25 and 27?

Mr. Littleton: 25 and 27.

The Court: What number are we up to now?

Mr. Reycraft: May I ask with respect to Exhibit 28, does Your Honor's copy show under "Total Four Counties" across from per cent of total, under $100 thousand to $500 thousand, the corrected figure, 59.5 rather than 39.5?

The Court: It does.

As a matter of fact, I had corrected the original one myself, so I have two corrected copies.

Mr. Littleton: My next objection, Your Honor, is to G-28-A.

Our objection there is that the category on the first line, "Time Deposits," does not include savings deposits figures.

[fol. 2737] Mr. Reycraft: As to these, I depend on the information you gave us.

Does it accurately reflect the category which you gave to us? I am happy to have it checked or corrected.

Mr. Littleton: It is such a broad statement of category, time deposits; and the exhibit does not include the savings deposits.

Mr. Reycraft: So that if we show, "Except Savings Deposits," that would be accurate?

Mr. Littleton: That would be accurate.

Mr. Reycraft: I think the memorandum is important to show completely the matters which Mr. Beadle testified about and the matters on which he based his testimony.

Mr. Price: He was only interrogated about a relatively small portion of it.

Mr. Reycraft: No, indeed. He was interrogated in considerable detail about the entire memorandum.

The Court: I will admit it. I will overrule your objection.

(Exhibit G-70 admitted in evidence.)

Mr. Price: My next, sir, is G-72 to G-78, inclusive, which are a number of branch applications of the Girard, which I consider quite irrelevant to any issue in this case.

The Court: Why do you need those? Why do we need to clutter the record with those, or any of these applications?

They are just formal documents, aren't they?

Mr. Reycraft; Your Honor, I am just merely concerned. I have shared your concern with having too voluminous documents in the record, but I do think that it may be [fol. 2742] important in order that the complete facts to the applications may be shown.

It is completely all right if Your Honor wants to examine them and come to the facts.

The Court: Frankly, they may have some relevancy somewhere along the line, so I am going to admit them, but I don't think that any record should be encumbered with other than whatever stated part you think is important to your case, Mr. Reycraft.

Mr. Reycraft: Let me suggest, Your Honor, that I go over these exhibit- and try to eliminate the excessive parts.

The Court: All right. I suggest that you do that, because they are public documents, anyway.

Mr. Reycraft: Yes, sir.

The Court: If there is any particular part of that application that you consider necessary for your particular record, I certainly will admit it; but I uge you strongly to cut down.

Mr. Reycraft: I will do that.

(Exhibits G-72-A to E inclusive, G-73, G-73-A G-74, G-75, G-76, G-76-A to W, inclusive, G-77, G-77-A to E, inclusive, G-78, and G-78-A, B, and C, inclusive, admitted in evidence.)

[fol. 2743] The Court: That affects the applications for both the Girard and the Philadelphia National Bank and, of course, as you gentlemen know, any overruling carries with it an automatic exception so your record is protected.

Mr. Price: I think I used the digits 78 but they would, of course, include the A, B, and C which were related to 78. They are all part of the same set.

The Court: Yes. I understand that.

Mr. Price: They were memos of Mr. Beadle relating to one of the applications that was referred to, I think, as 78.

The Court: Yes.

Mr. Littleton: If Your Honor please, the numbers of the Philadelphia Bank applications would be G-85 to G-99, inclusive, and I understand they are covered by Your Honor's ruling.

The Court: Yes.

Mr. Littleton: The same treatment by Mr. Reycraft?

The Court: I am going to admit them and we will work them out the same way.

(Exhibits G-85 to G-99, inclusive, admitted in evidence.)

Mr. Littleton: May I call attention to the fact that some [fol. 2744] of those applications are withdrawn, but they are nevertheless included?

Mr. Reycraft: They are indicated on the applications.

Mr. Littleton: That's right.

Mr. Price: It has just been called to my attention that I stopped at 78 inadvertently. Those exhibits go to G-82, relating to branch applications.

The Court: No, no. Beginning with G-81, Mr. Price, we start with a memo from Mr. Beadle to Mr. Smith.

Mr. Price: Yes, sir, and that related to the 23rd and Passyunk branch.

The Court: Oh, yes. That did relate to the branch.

I am only making my ruling on the applications themselves.

Mr. Price: Then that would include G-79 and G-80. G-79 and G-80 were also branch applications, 79 in the Suburban Station office, and 80 at 23rd and Passyunk.

The Court: Yes.

When we start at 81, which we shall do this afternoon, we are back on the memoranda in connection with them.

[fol. 2745] (Exhibits G-79 and G-80 admitted in evidence.)

Mr. Price: 81 and 82 related to 80.

The Court: Yes.

Mr. Price: I thought, therefore, it would be proper to include it.

The Court: I will overrule the objections through 82 and we will start with 83 this aftern on.

I will admit them, but I want them limited to the extent possible. Let's keep this record down somewhat.

(Exhibits G-81 and 82 admitted in evidence.)

The Court: It is 12:30 and we will start this afternoon.

(Recessed for luncheon at 12:30 o'clock P.M.)

[fol. 2746] AFTERNOON SESSION

The Court: We were up to 83, I believe. This G-83 also has some names.

Mr. Price: We had a lot of interlineations. We will have an accurate one that shows all that information in a more legible form. I haven't compared it to this to see whether there are any changes, but ours will be accurate.

The Court: You don't object to this, Mr. Littleton?

Mr. Littleton: Oh, no, not at all.

The Court: What is the next one that you gentlemen object to?

Mr. Littleton: G-85 to G-99, if Your Honor please, have to do with the Philadelphia National Bank applications for branches and mergers, some that are withdrawn. I understood that Your Honor's direction to Mr. Reycraft about the Girard Trust is the same as with regard to the Philadelphia National.

The Court: I will make the same ruling on the Philadelphia National as I did on the Girard Trust and again ask Mr. Reycraft that he kindly limit the record.

Mr. Littleton: We do object, if Your Honor please, to G-100, which appears to be a photostatic copy of a letter from the Philadelphia Clearing House Association to mem-
[fol. 2747] bers of the Clearing House Committee, with reference to some application of the First Pennsylvania Banking and Trust Company for an office in Glenolden.

Mr. Reycraft: I will withdraw that document.

(Exhibit G-100 withdrawn.)

Mr. Littleton: G-100 I am not raising any objection to, but I was talking to Mr. Reycraft during the recess. This is the one in which the ink or lead pencil corrections or overlay on the $2 service charge for returns and stop payments became three.

The Court: Yes.

Mr. Littleton: I am informed that some of the junior officers or clerks who had one of these things in charge recommended it to the merger group. The merger committee had recommended the three, and as Your Honor knows, in the application it went in as two, so these gentlemen apparently in their own notes kept a three over it, and the Government picked up this exhibit from us, and that is the explanation of the three. It means nothing.

The Court: All right, we will admit it.

(Exhibit G-101 admitted in evidence.)

Mr. Price: May I say in connection with this exhibit and a number of others, they were merely recommendations.
[fol. 2748] There is nothing to show whether they were ever adopted, and a number of them weren't, so they have very little significance, if any.

The Court: I will admit it anyway, Mr. Price.

Mr. Reycraft: The only point I had with G-101, Your Honor, is that this change was not made by us.

The Court: I thought that that was your purpose.

Mr. Littleton: My next is 126.

The Court: Do you have any in the interim, Mr. Price?

Mr. Price: (To Mr. Littleton) G-125 you object to also.

Mr. Littleton: G-125-A to G-125-C, we object to those.

Mr. Reycraft: Do you object to 125?

Mr. Littleton: We are going to change 125, as I understand it.

Mr. Reycraft: To eliminate the names.

Mr. Littleton: So as to eliminate the names.

The Court: I am a little behind you now, gentlemen. I have to look for it.

Mr. Reycraft: I will withdraw 125-A, B, and C.

[fol. 2749] (Exhibits G-125-A, B, and C withdrawn.)

The Court: G-125-A, B, and C. What are those?

Mr. Littleton: They were the Moody reports that, after our expression about coffidentiality, nevertheless went in, and it is all in the transcript. No need of having this exhibit.

The Court: All right, that takes care of those. You withdraw A, B, and C.

Mr. Reycraft: Yes, sir.

The Court: This, however, stays (indicating)?

Mr. Reycraft: That stays, and Mr. Littleton is going to offer an exhibit with the names of the borrowers omitted.

Mr. Littleton: I object to G-126 as being irrelevant to this issue. I don't see what it adds at all.

The Court: I will admit it. I overrule the objection.

(Exhibit G-126 admitted in evidence.)

Mr. Littleton: And the same as to G-126-A.

The Court: Is that the attachment?

Mr. Littleton: Well, it wasn't an attachment in the letter. It was something submitted by the Department of Justice during the course of the trial.

[fol. 2750] Mr. Reycraft: It is an official document of the Comptroller's office, a memorandum by the Deputy Comptroller of the Currency, reporting on a conversation in which Mr. Potts and Mr. Littleton were present in the Deputy Comptroller's office, and Mr. Potts testified about the conversation and stated that he recollected the conversation and the substance of it.

The Court: All right, I will admit it.

(Exhibit G-126-A admitted in evidence.)

Mr. Littleton: We object to G-127, which is the so-called summary of the Keith report. Since Your Honor had admitted the Keith report, I see no reason why the summary of the Keith report should be in evidence.

Mr. Reycraft: Dr. Keith testified from the summary to

some degree. I think it might be a convenience to all of us to have a shorthand reference.

The Court: Isn't it all in his complete report which has been admitted?

Mr. Reycraft: I think some of the specific references, Your Honor, the language is somewhat different in the summary.

The Court: All right, I will admit it.

(Exhibit G-127 admitted in evidence.)

Mr. Price: There is some confidential material which we [fol. 2751] can take care of, but I do object to 138, a memorandum about prospective or possible advance sites to be considered after the merger is completed. That certainly has nothing to do with this case.

Mr. Reycraft: This seems quite relevant to me. It shows what the expansion of the combined banks is going to be after the merger, how they are going to come to expand their trade areas, their percentages of the market, and how they are going to go into areas in which it was stated they are not in competition.

Mr. Price: It doesn't show any such thing, because it is merely a memorandum of what they call a task force, and it was not acted upon by any responsible official.

Mr. Reycraft: Consisting of officers of both banks. One man I know is a vice president, because he testified here, and it is in preparation for this particular merger, so I think it ought to be in evidence.

The Court: I will admit it.

(Exhibit G-138 admitted in evidence.)

Mr. Littleton: We object to G-144, if Your Honor please. It is not clear what it is. It speaks about numbers assigned. There was no explanation about what it is. I can't see the relevancy of it from the face of it.

[fol. 2752] Mr. Reycraft: Let me say that if you will furnish to me the numbers of the checking accounts by categories of the two banks, that that is all I want from this document. In other words, you show as to personal checking accounts the number for Girard and the number for PNB.

Mr. Littleton: As of today?

Mr. Reycraft: As of today.

The Court: What is MICR?

Mr. Reycraft: Magnetic Ink Check Recording.

Mr. Littleton: That is the first time that has been mentioned in this case. I didn't know what it was.

The Court: What is it?

Mr. Littleton: Mr. Reycraft says it is Magnetic Ink Check Recording.

Mr. Reycraft: It is a means of identifying checks which pass through the bank's Bookkeeping Department.

The Court: What particularly?

Mr. Reycraft: That has no relevance, Your Honor, as far as I can tell. As I say, my only purpose for using this document is to show the statistics as to the number of checking accounts in the respective banks, and if that can be [fol. 2753] furnished for the record, we could withdraw the exhibit.

The Court: For what it is worth, I will admit it.

(Exhibit G-144 admitted in evidence.)

Mr. Price: Sir, I am sorry, but I missed two. May I raise an objection to 140 and 141. 140 relates to a merger meeting. There is no explanation at all as to its significance to this case. G-141 is in the same category. The last lines indicates how remote it is by saying, "Guidance from your level would help in arriving at a decision for a new plan."

That is the last line of 141. There is nothing to indicate that these represent anything more than ideas that were floating around at sometime and never had been acted upon.

Mr. Reycraft: The second page of the memorandum says:

> "The question of raising objections to the branch applications of competitors was also mentioned, however, it was recognized that the objections of a $1.7 billion institution might not carry the same weight as those filed by a smaller competitor.
>
> "The whole area of branch philosophy, including [fol. 2754] mergers with smaller banks, was recognized as a topic worthy of discussion at future meetings, after the ground work for the divisional organization has been completed."

Mr. Price: That is just something that somebody was talking about at one time.

Mr. Reycraft: The vice presidents of the combining banks were talking about what they planned to do after the merger.

Mr. Price: The last paragraph of that on Page 3 shows that it was just passed off for further consideration at some other date. No action was taken on it.

Mr. Reycraft: It was not possible to take action on it until after the merger should take place.

The Court: I will admit it for what it is worth. Objection overruled.

(Exhibits G-140 and G-141 admitted in evidence.)

The Court: What is the next one?

Mr. Littleton: 150 will be next.

Mr. Price: 147 is a list of questions that the Government asked. I don't see any relevancy to the issues here.

[fol. 2755] Mr. Reycraft: The only purpose, Mr. Price, is so the answers may be understandable. I would think you would want them as well.

Mr. Price: Oh, the answers are in.

Mr. Reycraft: Not all of them. Some of these tables are based upon answers which you gave us to these questions, and I have identified not only the question but the modifications we agreed upon, so I think, really, in order to—

The Court: I will admit it. It is accurate, isn't it? It is an accurate reproduction?

Mr. Price: Oh, I think so. I have no question about its accuracy.

The Court: I got a copy of it originally, so I knew about it anyway, so we might as well leave it in.

(Exhibit G-147 admitted in evidence.)

Mr. Littleton: If Your Honor please, 150 through 160 have to do with applications for mergers or branches, some of which have been withdrawn, and we make the same objection as we did before.

The Court: The same ruling.

(Exhibits G-150 to G-160 inclusive admitted in evidence.)

[fol. 2756] Mr. Littleton: The next one we object to, if Your Honor please, is G-178, which is some handwritten notes that Dr. Goodman had with him.

The Court: That is not in my group here. Let me see it.

Mr. Littleton: It is a photostat of one page with Dr. Goodman's notes on.

Mr. Reycraft: I don't want it. I don't have it because you asked for it, and I did offer it in the blanket offer, but I withdraw it.

The Court: 178 withdrawn.

Mr. Reycraft: Yes, sir.

(Exhibit G-178 withdrawn.)

[fol. 2757] Mr. Littleton: G-179, if Your Honor please, which is the so-called Table 10 on page 388 of the volume "Financing Small Business," our objection to it is the same as that that was made earlier, namely, that it covers the entire United States.

The Court: I will admit it.

(Exhibit G-179 admitted in evidence.)

Mr. Littleton: And the same objection as to Table 1 on page 375 of the same volume, which is here G-180.

The Court: What is the page of the volume for 179?

Mr. Littleton: It is page 388.

The Court: And G-180?

Mr. Littleton: G-180 is Table 1 on page 375.

The Court: I will admit them, although they are part of G-193.

Mr. Littleton: That's right.

(Exhibit G-180 admitted in evidence.)

Mr. Littleton: G-182, we object to because it cites its sources as Tables 20, 21, 22, 23, 24, 25, 26, 27, which are G-20 and so forth; and our reason for objection to G-182 is that it is a composite exhibit built on other tables which we have already objected to as being incorrect.

Mr. Reycraft: We will review this also to see whether [fol. 2758] any changes will be made.

The Court: All right.

Mr. Littleton: G-183, we object to because it doesn't state what Government exhibits it is based on. It simply says as its source, "Government Exhibits."

If it is based on the same ones that I have just read, then we have the same objection that it is based on exhibits which are in themselves incorrect.

Mr. Reycraft: I also would like to check that.

Mr. Littleton: G-184 we object to because it doesn't show what Government exhibit is the source. It is blank there. The source, Government Exhibit (blank).

Mr. Reycraft: May I ask that Your Honor reserve ruling on that also?

The Court: All right.

(Ruling deferred on Exhibit G-184.)

Mr. Littleton: G-186, there is absolutely no testimony about. We have no idea what it is; nothing has been said about it. It was just handed to us along with 182, 183, and so on.

Mr. Reycraft: I will withdraw it.

The Court: Marked G-186 withdrawn.

(Exhibit G-186 withdrawn.)

Mr. Littleton: G-189 we object to on the ground that it [fol. 2759] has no relevancy whatsoever to this issue.

Mr. Reycraft: I withdraw it.

(Exhibit G-189 withdrawn.)

Mr. Littleton: G-190——

The Court: What is G-190?

Mr. Reycraft: G-190——

Mr. Price: I am sorry, sir, but may I raise a question about 187?

I have just been handed a memorandum which indicates that a number of the figures are inaccurate and I would ask Mr. Reycraft if he would check it.

Mr. Reycraft: What number?

Mr. Price: 187. I don't know how wrong these things are.

The Court: All right. I have 182, 183, 184, and 187. Mr. Reycraft is going to check them; and I will withhold a ruling.

Mr. Price: All right, sir, thank you.

(Ruling deferred on Exhibits G-182, G-183, G-184, and G-187.)

Mr. Littleton: G-190——

The Court: I don't seem to have a copy of that here. What is that?

Mr. Littleton: That is the printed document, "Member [fol. 2760] Bank Lending to Small Business, 1955-1957"; and at the foot it says reprinted from Federal Reserve Bulletin for April 1958, which Dr. Goodman referred to as the original sources for information to which he was testifying.

Our objection to it is that again it covers the entire United States and we are objecting, therefore, on the ground of relevancy.

The Court: I overrule the objection.

(Exhibit G-190 admitted in evidence.)

Mr. Littleton: The next one to which we object is 193, the green book, "Financing Small Business," on the ground that there has been testimony taken from it or predicated on certain parts of it; there have been certain tables put in, but that no one testified as to the contents of the entire book, and we see no reason why the book should be put in to swell the record.

The Court: I will let the book go in for my reading of the parts referred to; and that is all I will use it for.

(Exhibit G-193 admitted in evidence.)

Mr. Littleton: G-197 has simply been handed to us. There has been no testimony with respect to it, it has not been validated or confirmed in any way, and there are certain indications right within it that the figures are not realistic. [2761] For instance, it doesn't show loss of deposits at the time of mergers, it doesn't show how one acquires net operating earnings when there is a merger.

Mr. Reycraft: I will have to check on this one myself.

Mr. Price: I would point out in addition that it is misleading in suggesting that the merger between the Girard and the Corn Exchange represented a growth by acquisition.

It is hard to tell what these figures mean because there has been no explanation of them, but obviously that must have included, as indicated by the percentage figure which appears in the last column,——

Mr. Reycraft: This information appears in the application and my understanding is that it is a——

Mr. Littleton: No, this information doesn't appear in the application. For instance, if Your Honor please, they add together deposits of each bank; they do not show what deposits are lost at the time of the merger.

They add together net operating earnings; they don't show any lost net operating earnings.

This is something just created in the Department of Justice and it has nothing in back of it.

Mr. Reycraft: A mathematical putting together of the [fol. 2762] deposits, the loans, and the assets.

Mr. Price: In a most misleading fashion.

The Court: I will withhold ruling on that. I will not admit it and I won't exclude it at this point.

I will expect to hear further from you later about it.

Mr. Reycraft: All right.

(Ruling deferred on Exhibit G-197.)

Mr. Littleton: I have exactly the same objection to G-198, for the same reason.

The Court: I will withhold the ruling.

(Ruling on Exhibit G-198 deferred.)

The Court: What are we up to now? 200?

Mr. Littleton: The last I have is 198. I am just waiting to see what Mr. Price has. My next will be 210.

Mr. Price: 203, 204, 206, 207, and 209 relate to branches and for that reason I will object to them. They seem to have no relevancy to this issue.

They are memoranda related to branches, but no witness has testified to them or explained them and they don't really explain themselves.

Mr. Reycraft: One of the points we discussed before we marked these documents was whether you would require somebody to explain these documents and in the interest [fol. 2763] of conserving everyone's time I avoided calling witnesses on them.

The Court: I am going to overrule the objection and I will admit them.

(Exhibits G-203, G-204, G-206, G-207, and G-209 admitted in evidence.)

The Court: 210?

Mr. Littleton: 210, I object to/ on the ground of irrelevancy. It is a notice from the Philadelphia Clearing House Association that the Industrial Trust Company is purported to have received approval to establish a branch office in Bala-Cynwyd. Objected to on the ground of irrelevancy.

Mr. Reycraft. Just a minute. I will withdraw 210.

(Exhibit G-210 withdrawn.)

Mr. Littleton: 211, we are going to object to on the ground of irrelevancy. It is again a notice from the Philadelphia Clearing House that the Philadelphia National Bank has withdrawn its application to establish a branch on Frankford Avenue.

Mr. Reycraft: 211 refers to an application by the PNB and it is an admission by the Girard that it is a competitive location.

Mr. Littleton: I am sorry, that should be 212, not 211. [fol. 2764] The Court: What bearing does that have on this case?

Mr. Reycraft: Pardon me, Your Honor?

The Court: What bearing does 212 have, any more than 210 has on the case?

Mr. Reycraft: To indicate the exchange of information among the members of the Clearing House on what are supposed to be competitive branch applications.

The Court: Are you claiming that that is improper?

Mr. Reycraft: Not in itself.

The Court: That the Clearing House would disseminate information?

Mr. Reycraft: The lack of respect for this vigorous, competitive behavior.

The Court: I will sustain the objection to 212.

(Exhibit G-212 excluded.)

Mr. Littleton: The same objection to G-213, which is a notice from the Philadelphia Clearing House Association with reference to certain branches of The First Pennsylvania Banking and Trust Company.

Mr. Price: I am sorry, sir, I don't know whether 211 was included in that objection or not. I thought it was.

[fo. 2765] Mr. Reycraft: 211 is the one that we discussed

which contains an admission by the Girard that this particular location is competitive; and for that reason I think it has independent evidentiary value, and I will withdraw 213.

Mr. Price: You withdraw 211?

Mr. Reycraft: 213.

Mr. Price I don't find any admission in the statement by the secretary-treasurer of the Clearing House Association.

The Court: I am talking about 211.

Mr. Reycraft: That is an interoffice memorandum, signed, Your Honor, by S. S. Gardner or initialed by S. S. Gardner, with reference to competitive banks branch locations.

The Court: Yes, not protested.

Mr. Reycraft: An admission that this is a competitive bank and I think it has some evidentiary value in that respect.

The Court: All right. I will let 211 in. I will overrule the objection.

(Exhibit G-211 admitted in evidence.)

Mr. Reycraft: Now I will withdraw 213.

The Court: 213 withdrawn; all right.

(Exhibit G-213 withdrawn.)

[fol. 2766] Mr. Littleton: G-219 is a notice of the Clearing House with respect to the approval of a branch of The First Pennsylvania Company.

Mr. Reycraft: I will withdraw it. Withdrawn.

(Exhibit G-219 withdrawn.)

Mr. Price: I will object to 228 as being irrelevant. It relates to some kind of a computer or not. I don't see any connection whatsoever with this case.

Mr. Reycraft: I will withdraw it.

Mr. Price withdrawn.

(Exhibit G-228 withdrawn.)

The Court: We are about to cover today's exhibits, aren't we?

Mr. Price: I would point out that G-229 is mis-described as a recommended credit authority for the merged bank;

and the attachment indicates that it relates only to the consumer credit operation and not the entire operation.

Mr. Reycraft: Can you furnish the credit authority?

Mr. Price: Not for the entire bank.

Mr. Reycraft: Pardon me. I say, can you furnish the recommended credit authorities for the combined bank?

[fol. 2767] Mr. Price: I think it is in, but I am just speaking of this paper. It is somewhere else.

Mr. Reycraft: If it is in, we obviously don't need this and I withdraw it.

If it is, may we have it?

Mr. Price: This relates only to consumer credit.

Mr. Reycraft: I think we will all agree it ought to be in one way or another.

Mr. Price: We were going to have it for the Girard anyhow.

Mr. Reycraft: On the assumption that it is in the record and will be in the record, I will withdraw it.

(Exhibit No. G-229 withdrawn.)

Mr. Price: This only concerns a portion of it anyhow, so you wouldn't get it from this.

I am merely speaking about the mis-description of the title.

Mr. Littleton: That is all the objections we have.

The Court: How about you, Mr. Price; any additional?

Mr. Price: No, sir.

Mr. Reycraft: Your Honor, I have two things I would like to mention.

[fol. 2768] During direct examination of Mr. Potts we asked that certain information be supplied. I would like to ask that the record be kept open to that extent.

The Court: You asked for certain information from whom?

Mr. Reycraft: From Mr. Potts, during the direct examination.

I understand that counsel are going to supply it, but it has not yet been supplied.

Then, If I may ask Your Honor's permission to submit a memorandum on the question of the admissibility of the deposition, I may not have pointed out that Mr. Brown was the managing agent, and it was my under-

standing that the managing agent of the parties can be used for any purpose as submission against the parties involved; and if I may, I would like to submit a memorandum.

The Court: You may do it. Where the witness isn't available you very definitely have the right to use it.

I would very definitely like to see a memorandum on that because as of now it is excluded, but I can always be educated, however.

Mr. Reycraft: We rely on 26(d)(2), Your Honor.

The Court: I understand.

You may be able to convince me.

[fol. 2769] Mr. Price: Your Honor, with respect to Exhibit G-200, which was the answer of the Girard to Question 6, those were handed to me immediately before lunch and I have reproduced during the lunch hour a list of additional companies, which I will give to Mr. Reycraft as a supplement to the answer which was originally prepared to what was stated to be a partial answer.

Since then this is additional information which I will now hand you and I assume you would like to add it to G-200.

Mr. Reycraft: This is additional information to G-200?

Mr. Price: It is the answer to your Question 6 which, at the time it was given to you, was stated to be a partial answer. The man in charge suffered a heart attack and there was a delay.

Mr. Reycraft: So that this is to be substituted for G-200?

Mr. Price: Added to it.

Mr. Reycraft: Would you add this to G-200, as a supplement?

(Document of seven sheets, headed on the first sheet, "Borrower, Girard Lines and Loans, Banks Used in Other Cities," to be added to Exhibit G-200.)

[fol. 2770] Mr. Reycraft: Do I understand now that as supplemented the information you have furnished is a complete list of borrowers of Girard Trust Corn Exchange Bank who have borrowed from banks in other cities than Philadelphia in the last five years?

Mr. Price: So far as we have been able to ascertain on an additional search.

The Court: Does that conclude your case, except for such parts as you have kept open?

Mr. Reycraft: I think it does, Your Honor. Let me just consult for a moment.

That concludes our case, Your Honor.

The Court: Do you figure that you have made out a case under Section 1 of the Sherman Act?

Mr. Reycraft: Yes, sir.

The Court: You do?

Mr. Reycraft: Yes, sir.

The Court: All right.

How much time do you need? We have talked about two days.

If we come back Thursday and Friday, of course, we have been running short days; and on Friday at noon we will have a new United States Attorney sworn in in this room, so that is the situation there.

[fol. 2771] It looks as if we have only one effective day this week.

Mr. Littleton: I think we need two days.

I think it will shorten time in the end if we have the two days. Mr. Price suggests we take three, but I really think it will shorten it in the end because, of course, while we have a certain program in defense——

The Court: The point is if you take three days you won't be starting until 10:30 on Wednesday, the 5th.

Mr. Littleton: I don't think anyone would seriously suggest that. I think we are prepared to start Thursday morning and I say having a few days in between will probably shorten it in the end because, as I say, we will probably be able to shorten the defense as we had programmed it before to meet the situation as we find it in reviewing the record.

The Court: Yes, you may.

Mr. Price: I wasn't facetiously suggesting three, but I would think we would need at least two, and since the second day was to be only a half a day, and if that was to be because of the new United States Attorney, it might be more helpful to put things in in a way where they can start and continue rather than be interrupted after one day.

However, I am at Your Honor's service.

[fols. 2772-2775] The Court: I don't want to let you get too far away. Today is only Monday and Wednesday a week is a long time away without getting the defense in motion.

I think we can have at least an hour and a half on Friday morning.

Mr. Price: I didn't understand that we would have anything on Friday morning.

The Court: I would hope to get in possibly and run right through until somewhere between 11:15 and 11:30 and then I would have to close for the day to permit the room to be set up for the ceremony.

We will plan on Thursday and Friday morning for perhaps an hour and a quarter to an hour and a half.

Mr. Littleton: Thank you.

Mr. Price: Very well.

(Recess taken at 2:44 o'clock P.M. until Thursday morning, June 29, 1961.)

[fols. 2776-2777] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

SIXTEENTH DAY

Philadelphia, Pa., July 5, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2778] DEFENDANTS' EVIDENCE

STEPHEN S. GARDNER, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Gardner, what is your occupation?

A. I am a vice president of the Girard Trust Corn Exchange Bank.

Q. And have been for how long?

A. I have been a vice president since 1958, sir.

Q. And in the course of your duties as such vice president did you make a study of the location of branches of the Girard Trust Corn Exchange, Philadelphia National Bank, and other banks in Philadelphia and surrounding areas?

A. I did.

Mr. Price: Will you mark this:

(Map of Philadelphia County showing locations of all offices of commercial banks in Philadelphia County was marked Exhibit D-6 for identification.)

Q. I show you a map which has been marked Exhibit D-6 and ask you if you will tell me what that is.

[fol. 2779] A. This is a map of Philadelphia County. It includes on the map the locations of all offices of commercial banks in Philadelphia. They are designated by circles. Within each circle is a number which refers to a key printed on the map, which indicates which bank the branch or the office belongs to. In addition, the offices of the Philadelphia National Bank are colored in blue and the offices of the Girard Trust Corn Exchange Bank are colored in orange.

Q. The blue circle in the upper left-hand corner under the map key is opposite an N. The N stands for what?

A. National bank.

Q. And the S opposite the orange stands for what?

A. State bank.

Q. So that the N banks are the national banks, Philadelphia National, and the S or state bank is Girard Trust?

A. That is correct.

Q. And the two circles underneath with the numbers 245 and 149 "Approved Not Open" mean that the two designations with those numbers on the key have been approved but not opened?

A. At the time the map was prepared, yes, sir.

Q. But all the others shown on the map in color were [fol. 2780] open and in operation at that time?

A. Yes, sir.

Q. The map key in the upper left-hand corner has under the heading "Key" a series of numbers. What do they represent?

A. Those numbers represent consecutive numbers for the offices of each bank listed in the key.

Q. And are those the same numbers which appear in the application beginning at Page 43 and continuing through to Page 71?

A. They are.

Q. So that wherever in these maps that I am handing you now, this one or the next one, those key numbers appear, they are the corresponding numbers which are

in the application itself opposite the names of the several banks?

A. Yes, sir.

Q. This map D-6 relates solely to the City of Philadelphia?

A. That is correct.

Q. And the central insert at the lower right-hand corner is simply a larger scale of the central city area which couldn't be shown adequately on the scale of the main map; is that correct?

[fol. 2781] A. Yes, sir.

Q. But the form of designation of branches is the same as is used on the larger map?

A. It is the same.

Q. Now, the circles that have numbers in them but are not colored represent what?

A. The offices of competing commercial banks.

Q. Well, they are commercial banks and nothing else; isn't that so?

A. Yes, sir.

Q. Just banks?

A. Yes, sir.

Q. And in the same insert what are the black dots?

A. They represent the exact location as near as it could be put on the map. Circles are drawn on that insert, and arrows point to the dots showing the location.

Q. So the dots themselves are the location and the circles with the numbers are wherever you could conveniently put them?

A. Yes, sir.

Q. Then together this D-6 shows the location of all main offices and branches in the City of Philadelphia of the Philadelphia National Bank, Girard Trust Corn Exchange Bank, and other commercial banks in that area?

[fol. 2782] A. Yes, sir.

Q. This D-6 is, in fact, one of the maps that was attached to the application itself when it was filed, is it not?

A. Yes, sir.

(Map of the Greater Philadelphia Area, showing Philadelphia County and all counties contiguous to Philadelphia County, was marked Exhibit D-7 for identification.)

Q. I show you another map marked D-7 and ask you what that is.

A. This is a map of the greater Philadelphia area, showing Philadelphia County and all counties continguous to Philadelphia County. It also designates the service areas, as requested in the application, of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank and the combined service areas of the two banks. In the case of the Philadelphia National the service area is designated by a heavy blue line. The Girard Trust Corn Exchange Bank service area is designated by a cross-hatched line.

Q. In black?

A. In black. The service areas of the combined banks are designated by a heavy black line. Further the map [fol. 2783] shows the locations of all the offices of other commercial banks within the service area outlined on the map.

Q. The blue and orange circles with numbers within them follow the same form as the earlier ones on Exhibit D-6?

A. Yes, sir.

Q. To designate both Philadelphia National Bank branches and Girard Trust branches?

A. Yes, sir.

Q. This contains no data for the County of Philadelphia except one or two at the western edge where the city adjoins Montgomery County; isn't that so?

A. Yes, sir.

Q. And the 69th Street area?

A. Yes, sir.

Q. So that is why the area designated "Philadelphia" on the map has no numbers in it?

A. That is correct.

Q. Now, the map key to commercial bank locations in the lower right-hand corner of the map likewise has a series of numbers. Are those the corresponding numbers for the other banks and their branches showing their designation in the same way as D-6 did for Philadelphia?

A. Yes, sir.

[fol. 2784] Q. And they are listed beginning at Page 43 of the application, as were those within the City of Philadelphia?

A. Yes, sir.

Q. How is the service area of the Philadelphia National Bank determined?

A. The instructions for completing the application required that an area be described as the service area, containing at least 75 per cent of the deposits of the bank, and this area was used because it was necessary to meet that requirement in the application, and this area does meet that requirement, containing more than 75 per cent of the deposits.

Q. So that the service area designations, the blue line, the cross-hatched black line, and the combined, the solid black line, follow the instructions of the application and designate the service areas in accordance with those instructions?

A. Yes, sir.

Q. And they are the service areas that were dscribed in the application itself, are they not?

A. Yes, sir.

Q. That relates to the IPC deposits, I believe, the question in the application.

A. That is correct.

[fol. 2785] Q. This map likewise was included as an exhibit in the application itself, was it not?

A. Yes, sir.

Q. You mentioned the combined service area as being designated by a black line, but within the outside perimeter there are also heavy black lines. Those are simply county lines separating Philadelphia from adjacent counties, for example, are they not?

A. That is correct.

Q. But the county lines are not carried in heavy black outside the combined service area, are they?

A. That is correct.

Q. The county lines are designed by the names of the two adjacent counties on opposite sides of a county line wherever they appear?

A. Yes, sir.

Q. You described how the Philadelphia National Bank service area was arrived at as designated on the map. I assume the Girard was done the same way?

A. Yes, sir.

Q. And it relates only to deposits and not to any other activity?

A. Yes, sir.

Q. I will ask you now to look at the map which is [fol. 2786] shown as the right-hand one on the easel, designated "Philadelphia National Bank-Girard Trust Corn Exchange Bank," with a blue square opposite the Philadelphia National Bank's name and a blue circle opposite the Girard Trust Corn Exchange Bank's name, and that will be marked D-8.

(Map showing four-county area and adjacent counties to Philadelphia, showing the location of all Girard Trust Corn Exchange Bank offices and all Philadelphia National Bank offices, was marked Exhibit D-8 for identification.)

By Mr. Price:

Q. Mr. Gardner, will you look at the map which has now been marked D-8, and tell me what that represents.

A. That represents again the four-county area and adjacent counties of Philadelphia and shows the location of all of the Girard Trust Corn Exchange Bank offices and all of the offices of the Philadelphia National Bank. The Philadelphia National Bank offices are designated by squares, the Girard Trust Corn Exchange Bank by circles, both the squares and the circles colored blue. The map shows the county lines of Bucks County, Montgomery County, Delaware County, Philadelphia County, Chester County, New Castle, Mercer, Burlington, Gloucester, [fol. 2787] Camden; and within the four-county area in Pennsylvania of Montgomery, Delaware, Bucks, and Philadelphia all of the dots are located.

[fol. 2788] Q. They show all of the branches within the four-county area, including Philadelphia, of the two banks?

A. Yes, sir.

Q. And those in the Central City are shown in the little insert in the upper right-hand corner, which is then a larger scale than the main map?

A. Yes, sir.

Q. Are they not?

A. Yes, sir.

Q. That is simply because of the scale it would be impossible to show them in any other way?

A. Yes, sir.

Q. Now referring to the insert, what area of the city does that cover?

A. That covers from the northern perimeter of Girard Avenue, south to South Street on the southern perimeter, and from the Schuylkill River—or, rather, the Delaware River on the east to about 21st Street on the west.

Q. Now, calling that for the moment the Central City area, that is blank on the main map, but throughout the rest of the City of Philadelphia, as designated by the county lines, the individual branches are shown on the smaller-scale map, are they not?

A. Yes, sir.

[fol. 2789] Q. Now, what are the red lines connecting some of the dots and squares?

A. The red lines are simply used to designate distances between the offices on either end of the line.

Q. How were those particular offices selected?

A. Those offices were selected because they were the closest offices of the two branch systems of the two banks.

Q. So that a red line then represents the shortest distance between any two branches of the respective banks?

A. Yes, sir.

Q. In various areas?

A. In various areas, yes, sir.

Q. And is there a distance marked on the map alongside the red line?

A. Each red line has a circle above it or beside it; this gives the distance in miles between the two offices joined by the red line.

Q. Now, there is one spot in the center of the city with no dot or circle, but two red lines lead to it, one from the south and one from the west.

What do those two lines represent?

A. They represent distances from the two offices designated on the further end of the red line to Broad and Chestnut Streets.

Q. That is the Center City?

[fol. 2790] A. The center of the city.

Q. Where both the Girard and the Philadelphia National have their offices across Broad Street?

A. Yes, sir.

Q. But except for that the other red lines are merely the shortest distances between the nearest branches of the two banks in other sections of the city?

A. Yes, sir.

Q. Now, in the insert there is a red line connecting two branches, one a dot and one a square, which does not represent the shortest distance between the two of them.

What is that supposed to indicate?

A. Well, that red line was put in to give the viewer a comparative idea of distance. It joins two offices, one of Girard and one of Philadelphia National, that are one half mile apart; and since some center-city offices are a good deal less than a half mile apart we drew that one line to give an indication of mileage between center-city offices.

Q. Then that is merely to represent a scale and was not inserted for the same purpose as the red lines on the smaller-scale map were?

A. That is correct.

Q. That central-city area from Girard Avenue to South Street and the Delaware River to 22nd Street was consid- [fol. 2791] ered as a central-city area and all within it were in the same category?

A. Yes, sir.

Q. So you didn't put any red lines for them?

A. Yes, sir.

Q. That is merely a convenient scale for that section of the map?

A. Yes, sir.

Q. And the same for the other, the small-scale map, is shown just under the designation in the upper left-hand corner, is it not?

A. That's correct.

Mr. Price: Will you mark D-9, please?

(Chart showing locations of offices of Philadelphia National Bank, Girard Trust Corn Exchange Bank, other commercial banks, mutual savings banks, and insured federal and state savings and loan associations in general trading area of Philadelphia National Bank and Girard Trust Corn Exchange Bank was marked Exhibit D-9 for identification.)

By Mr. Price:

Q. Mr. Gardner, I will now ask you to look at the map which has been marked D-9 and ask you to tell me what that is, first, as to the area that it covers, comparing it with D-8, and then as to what it shows.

A. It covers the same area as Exhibit D-8 and shows, by a series of colored dots and squares, the locations of all com- [fol. 2792] mercial banks in that area, the locations of all mutual savings banks, and the locations of all insured federal or state savings and loan associations.

Q. And how is each of those designated?

A. Philadelphia National offices are again shown with a blue square; the Girard Trust Corn Exchange offices in a blue circle; all other commercial banks are shown with a red circle; all mutual savings banks are shown with an orange circle; and all insured federal and state savings and loan associations are shown by green circles.

Q. And there is no designation for uninsured state savings and loan associations?

A: No, sir.

Q. Is there?

A. No, sir.

Q. And they show all banks and branches and institutions of that character within the four-county area and outside of it within the general service area which was shown on the two earlier maps marked D-6 and D-7?

A. Yes, sir.

Q. Now, the insert at the upper right-hand corner, does that cover the same area as the insert in D-8?

A. Yes, sir.

Q. And the designation, the pattern of the designation, [fol. 2793] is the same as that on the smaller-scale map, is it not?

A. Yes, sir.

Q. I see in the lower central area there a designation, "See Insert."

That is the central city?

A. Yes, sir.

Q. Which is represented in the upper right-hand corner, is it not?

A. Yes, sir.

Q. I will ask you to refer back again to D-8 for a moment, Mr. Gardner, with reference to the 69th Street area, where there are two or three dots or squares very close together.

Will you look closely, if you want to,——

A. Yes, sir.

Q. —if you can see it from where you are, will you just tell us what that represents and why they are so designated.

A. At 69th Street we have three blue circles for the three Girard offices, which represent our 6910-12 Market Street, and the drive-in office and terminal offices which are adjuncts to that 6910-12 Market.

The bank's drive-in office is an office across the street at the rear of the main office there on a parking lot.

Q. That is the Girard's drive-in office?

[fol. 2794] A. Yes, sir; and the Girard's terminal office is a small counter, teller's counter installation in the PTC Terminal at 69th Street directly across the street from the main 69th Street office.

Now, all three of those are represented by individual circles, and there is a square representing the office of the Philadelphia National Bank that was recently established at 6912-14 Market Street, which is next door to the main office of the Girard at 69th Street.

Q. And there is a little small piece of red covering all three of those?

A. Yes, sir.

Q. But they are so close together that no distance was designated on the map?

A. The circle showing distance has a zero in it, showing no appreciable distance.

Mr. Price: Will you mark that the next exhibit number, D-10?

(Document entitled "Distances From All Philadelphia National Offices To The Nearest Girard Trust Corn Exchange Office," was marked Exhibit D-10 for identification.)

By Mr. Price:

Q. Now I show you a paper marked D-10 and ask you what that is.

[fol. 2795] A. This is a list of all of the distances from

all Philadelphia National Bank offices to the nearest office of Girard Trust Corn Exchange Bank.

It simply lists all of the offices, the closest Girard office, and the actual distance in road miles between the two offices.

Q. Did you say in road miles?

A. No, sir, in map miles, I should have said

Q. That is, it is a straight line?

A. Yes, sir.

Q. And does not purport to indicate the actual distance one would have to travel over streets to get from one branch to the other?

A. No, sir.

Q. But it is the shortest airline distance between the two?

A. Yes, sir.

Q. Now, does this correspond with the map marked D-9?

A. Well, this will show—map D-9 will show all offices of the banks, the two banks involved, and this can be discovered on map D-9.

Q. But D-8 itself shows only a relatively few distances in red, but if I am correct in understanding this paper, D-10, that shows all the distances?

A. Yes, sir.

[fol. 2796] Q. From a Philadelphia National office to the nearest Girard office, wherever it may be?

A. Yes, sir.

Q. Now, obviously, the same would apply to D-9, but D-8 is the one that is restricted to the two banks alone?

A. Yes, sir.

Q. Now I show you a paper marked D-11——

(Document entitled "Distances From All Girard Trust Corn Exchange Offices To The Nearest Philadelphia National Office," was marked Exhibit D-11 for identification.)

By Mr. Price:

Q. —and ask you what that paper is.

A. That is a corresponding list showing the distances from all Girard Trust Corn Exchange offices to the nearest Philadelphia National office.

Q. So that complements the exhibit marked D-10 and gives the distances in the other direction now from the

Girard offices to the nearest Philadelphia National Bank offices?

A. Yes, sir.

Q. The offices being shown on these two maps, D-8 and D-9?

A. Yes.

Q. Now I show you a 13-page list entitled "The Philadelphia National Bank," marked D-12——

(13-page document entitled "The Philadelphia National [fol. 2797] Bank list of each of its offices, giving each office of a competing institution located within a radius of one mile from each Philadelphia National city office and within a radius of two miles for each Philadelphia National suburban office, was marked Exhibit D-12 for identification.)

By Mr. Price:

Q. —and I ask you what that exhibit represents.

A. That represents a list of each office of the Philadelphia National Bank and gives the names of each competing institution located within a radius of one mile of each city office of the Philadelphia National and within a radius of two miles for each suburban office of the Philadelphia National.

Q. And the competing institutions are those which are shown on the map marked D-9, are they not?

A. Yes, sir.

Q. So that this Exhibit D-12 supplements the information shown graphically on D-9 by name of institution and street address of each branch or office of that institution?

A. Yes, sir.

Q. And the location of each of these branches shown on D-12 can be identified on D-9 if reference is made to the colored dot designations and the legend in the upper left-hand corner and the type of institution as shown by D-12 is given correctly?

A. Yes, sir, yes, sir.

[fol. 2798] Q. Then am I correct in saying that D-12 covers all of the offices or lists all of the offices of the Philadelphia National Bank and all of the competing institutions as you have described them, which are within the respec-

tive distances of one mile within the city and two miles within the surrounding counties of that bank and its branches?

A. Yes, sir.

Q. Now I show you or hand you a 20-page list entitled "Girard Trust Corn Exchange Bank," marked D-13,——

(20-page document entitled "Girard Trust Corn Exchange Bank list of each of its offices, giving each office of a competing institution located within a radius of one mile for each Girard city office and within a radius of two miles for each Girard suburban office," was marked Exhibit D-13 for identification.)

By Mr. Price:

Q. —and I ask you what that exhibit represents.

A. This is a corresponding list for the offices of Girard Trust Corn Exchange Bank similar to Exhibit D-12. It lists each office of the Girard Trust and all competing institutions within a one-mile radius of each city office and within a two-mile radius of each suburban office.

Q. And the competing institutions are still the same competitors listed on D-9, are they not?

[fol. 2799] A. Yes, sir.

Q. So that gives the comparable information for Girard that D-12 gave for the Philadelphia National?

A. Yes, sir.

Mr. Price: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Gardner, you testified that in Exhibit D-9 no uninsured state savings and loan associations were included.

Can you tell me why, sir?

A. Well, it would have been a physical problem to show anything on the map to include that many institutions in addition to the ones we already have on the map.

Q. And that is the reason why they weren't included?

A. Yes. There are some 450 of them. To add to this

that map would have made the purpose of the map less available or less effective, I think.

Q. Can you tell me of what date the information contained in D-6 and D-7 is purported to be accurate?

A. D-6 and D-7?

Q. Yes, the two large maps which are included with the application.

A. I would——

Q. Is that October 25, 1960?

[fol. 2800] A. Yes, sir.

Q. That is the date that is included in the application.

A. That is the date the maps were prepared.

Q. Now will you refer to No. 141-A on D-7?

A. I don't have D-7.

Q. Now, that is in Levittown, Mr. Gardner, if that will help you.

A. Pardon me?

Q. That is at Levittown, if that will help you.

A. Yes, sir.

Q. Can you teh me whether that branch of the First Pennsylvania was opened as of October 25, 1960?

A. I can not tell you whether it was opened as of October.

Q. Does the exhibit purport to show offices which are open and in operation?

A. And approved but not opened.

Q. It does not necessarily indicate then that all of these offices are open; is that correct?

A. That is correct.

Q. Would you know whether the offices of the First Pennsylvania shown for Montgomery County were all open in October of 1960?

A. I can not tell you from the map code itself, from the map key itself.

[fol. 2801] Q. And you don't know either whether all of the branches indicated for Delaware County were open as of October 25, 1960, do you?

A. Delaware County what?

Q. Pardon me? First Pennsylvania.

A. First Pennsylvania?

Q. Yes.

A. I know one was not.

Q. You know one was not.

Do you know whether than branch is open as of this date?

A. It is not.

Q. But it is included in the map?

A. Yes.

Q. Now, do you know whether all of the offices shown for Provident Tradesmens were open as of October 25, 1960?

A. I can't tell from the map code.

Q. Now with reference to Industrial Trust and No. 195, my information is that Industrial Trust has no office at 195 location.

Do you have the information on that?

A. It had an approval to open an office at that location at the time the map was prepared.

Q. But so far as you know that office has not yet opened?

[fol. 2802] A. It has not opened.

Q. You know that it has not?

A. Yes, I do.

Q. It also doesn't show any office for Pennsylvania Warehousing & Safe Deposit Company.

Can you tell me why that was not included?

A. That was not included on the map when we originally made the map up.

Q. Can you tell me the reason for that, sir?

A. Well, I'd just rather say that it was not included; perhaps missed.

Q. How about the Finance Company of Pennsylvania?

A. That wouldn't show on this map.

Q. That is not shown on the map, either?

A. I would have to look at Exhibit—this was not included on the map.

Q. Now, can you locate for us, Mr. Gardner, No. 61? We can't, I might tell you.

A. No, I can not locate No. 61.

Q. Mr. Gardner, will you refer to——

The Court: You asked about 61?

Mr. Reycraft: Yes, sir.

The Court: There is a 161, which says Girard Trust Corn Exchange Bank, which is not marked up.

[fol. 2803] Mr. Price: May I interrupt, sir? I have the application here, G-57, and it shows on page 54 that No. 61 at 2620 Edgmont Avenue, Parkside, one of the Delaware County National Bank offices, had been recently closed.

I don't know whether it shows on that or not, but it was not in existence at the time that the application was dated.

The Court: I point up that 161, as I look at it here——

Mr. Price: 61, sir.

The Court: I understand.

Mr. Price: 61, not 161; but 61.

The Court: On your map wouldn't Girard Trust Corn Exchange Bank be circled with—I am looking at D-7 now. Shouldn't there be orange in the 161?

Mr. Gardner: Yes, sir. There should be.

The Court: Look at 254 of the Philadelphia National Bank right opposite there, in Upper Chichester Township. There is a 161.

The Witness: Your Honor, that, I believe, is a route sign that was on the original map before it was prepared.

The Court: It had nothing to do with the number of a bank?

The Witness: Yes, sir.

[fol. 2804] Mr. Price: With Mr. Reycraft's permission, I am going to hand the witness now a copy of the Exhibit G-57, the application, from which these numbers were taken.

This, I think, will enable him to clarify the corrections about what an "A" means and whether it was opened or not.

By Mr. Price:

Q. First, with reference to this 61, the application, on page 54, shows what?

A. It shows that the Parkside office of Delaware County National Bank at 2620 Edgmont Avenue was recently closed.

Q. Does the application page there show what "A" means on the maps D-6 and D-7?

A. (No response.)

Q. Take 141-A, for example.

A. No, sir.

Q. Look at 141-A of the exhibit and see what it says.

A. That was approved and not opened, Levittown Parkway and Bristol Pike, Levittown, Pennsylvania.

Q. And is that what the "A" designation means on the map in the circle opposite the numbers?

A. No, sir. That is not what the "A" designation means,

but this is an explanation that the Levittown and Parkway office was approved but not opened.

[fol. 2805] The "A" was used when the numbers had once been decided and it was necessary to show an additional office.

Q. The Exhibit 57 you have in front of you listed all of the offices that were approved but not opened?

A. Yes, sir.

Q. And they are shown on the map now?

A. Yes, sir.

Q. With the corresponding numbers?

A. Yes, sir.

Mr. Price: Thank you, Mr. Reycraft.

[fol. 2806] By Mr. Reycraft:

Q. Mr. Gardner, will you refer to D-12, Page 5.

A. Yes, sir.

Q. Will you refer to the category that has in the left-hand column "Philadelphia National," where "3131 Market Street Office" appears, and you list Broad Street Trust Company, First Pennsylvania, and Philadelphia Saving Fund Society. I understand that this list constitutes each office located within a radius of one mile; is that correct?

A. Yes, sir.

Q. Would that include one mile or be less than a mile?

A. It would be up to one mile.

Q. Wouldn't that include the Suburban Station office of the Girard, and would you refer to D-10, and if you will observe the fifth line down, it indicates that the Suburban Station office of the Girard is one mile from the Market Street office of the Philadelphia National.

A. Yes, sir.

Q. So that the Suburban Station should be included in D-12?

A. It could have been included in D-12.

Q. It should be by your criterion; isn't that right?

A. The measurements are the best we could make on the maps. It perhaps should have been included.

[fol. 2807] Q. If the figures are accurate, it should have been included; is that correct?

A. Yes.

Q. Will you refer to Page 6 of D-12. Referring to the

column "Philadelphia National Front Street Office," there is a branch of the Girard 1¼ miles away from that office, is there not, by referring to D-10?

A. Yes.

Q. So that while it is not within a mile, there is one a quarter of a mile farther away than the criterion you have?

A. Yes.

Q. And on Page 7, the Philadelphia National Erie office, Erie and Castor Avenues, D-10 indicates, does it not, that there is a branch of the Girard one mile away, which is not included in D-12?

A. Yes.

Q. And that also should have been included under criteria, should it not?

A. Again it is on the one-mile perimeter.

Q. On the assumption that your figures are accurate, it should have been included?

A. Yes.

[fol. 2808] Q. Now will you refer to the Front and Allegheny office of the Philadelphia National, also on Page 7.

A. Yes, sir.

Q. Isn't the Germantown and Lehigh office of Girard ⅞ of a mile away from that office?

A. Yes, sir.

Q. And that also should have been included in D-12, should it not?

A. Yes, sir.

Mr. Reycraft: That is all.

By Mr. Price:

Q. The first two that you mentioned, that you were asked about, 3131 Market Street and the Suburban Station, were just one mile apart, so that they were at the limit of the radius that you designated in D-12?

A. Yes, sir.

By Mr. Reycraft:

Q. Have you included a number of other offices which are exactely one mile, according to your measurements?

A. I would say yes to that.

WISTAR H. MACLAREN, having been duly sworn, was examined and testified as follows:

[fol. 2809] Direct examination.

By Mr. von Starck:

Q. Mr. MacLaren, what is your position in the Philadelphia National Bank?

A. I am vice president and comptroller.

Q. What are your duties as such?

A. My duties as such are to run the financial end of the general accounting, the cost accounting and statistics, the taxes, and to interpret the results of those functions to management.

Q. How long have you held this position?

A. I was appointed comptroller in 1954, vice president a couple of years later.

Q. Do you hold any positions on any committees of the bank?

A. Yes, I am on three committees in the bank.

Q. What are they?

A. The Administrative Committee, the Staff Committee, and the Forward Planning Committee.

Q. What are the duties of the Administrative Committee?

A. The Administrative Committee is composed of the president, the executive vice president, our three senior vice presidents, and myself as comptroller. Our duties are to advise and consult with the president on matters of [fol. 2810] major policy.

Q. What are the functions of the Staff Committee?

A. The Staff Committee, which is made up of a dozen or 15 of the major division heads within the bank, serves as an intermediate for passing information up and down from the top level of command down to the lower echelons and vice versa back on up, and also to make decisions within their areas.

Q. What functions did you play in the preparation of the application to the Comptroller for approval of the merger, which has been identified here as G-57?

A. In the preparation of the application I was responsible for the pulling together and the coordination of the

preparation in so far as Philadelphia National was concerned and also in so far as the general financial statistics were concerned for Philadelphia National, to prepare them.

(Letter dated February 28, 1961, from H. S. Haggard, Deputy Comptroller of the Currency, to Mr. Frederic A. Potts, president of the Philadelphia National Bank, was marked Exhibit D-14 for identification.)

Q. Is this letter dated February 28, from Mr. Haggard, Deputy Comptroller of the Currency, to Mr. Potts, president of the Philadelphia National Bank, a true and correct [fol. 2811] copy of a letter that is in the bank's files advising the Philadelphia National Bank of the approval by the Comptroller of the proposed merger?

A. It is.

Q. Will you please read the first paragraph of this Exhibit D-14.

A. "The Comptroller has considered the proposed consolidation in the light of the statutory factors enumerated in Section 18(c) of the Federal Deposit Insurance Act, as amended by P. L. 86-463, approved May 13, 1960. These factors are the financial history and condition of each of the banks involved, the adequacy of its capital structure, its future earnings prospects, the general character of its management, the convenience and needs of the community to be served, whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act, and the effect of the transaction on competition (including any tendency toward monopoly). After giving careful consideration to the proposed consolidation in the light of each of these factors, the Comptroller has found that the transaction will be in the public interest. Accordingly, on February 24, 1961, he gave his approval to the [fol. 2812] proposed consolidation on the following conditions:"

Q. Those conditions are merely the formal mechanical ones which usually accompany a merger approval, are they not?

A. That is my understanding, yes.

(Document headed "Commercial Banks With Head Office Located in Ten-County Area by Counties on December 31, 1960" was marked Exhibit D-15 for identification.)

Q. I show you four sheets which have been marked Defendant's Exhibit No. 15. Will you explain in general the information shown on D-15.

A. The information shown on D-15 covers all commercial banks with headquarters located in a ten-county area, breaking the banks down by counties and showing for each bank the total assets, the total deposits, the total loans, and their lending limit on December 31, 1960.

Q. What is the source of the information shown on D-15?

A. This information was all compiled from Polk's Bank Directory, the 133rd edition, dated March, 1961.

Q. And how have the banks been arranged within the counties as shown here on D-15?

A. The arrangement within the counties is in descending order of lending limit.

[fol. 2813] Q. So that in Philadelphia County the first bank appearing thereon has an $8 million lending limit and the last one is the Marian Bank, having a $9 thousand lending limit; is that correct?

A. That is correct.

Q. Have you included Brown Brothers on this exhibit in Philadelphia?

A. Brown Brothers is included on this exhibit in Philadelphia County, with a footnote (a) indicating that the figures are for the entire bank.

Q. Why have you included it for the entire bank?

A. It is impossible to get breakdowns as far as assets, deposits, and loans are concerned, to show what originates within the Philadelphia area; and as far as lending limit is concerned, in my opinion it is appropriate to include the entire lending limit because that whole amount is available for borrowers in Philadelphia.

Q. Why have you not included the First Camden National Bank, which has an office in Philadelphia?

A. The First Camden National Bank is not included under Philadelphia County because the arrangement here is by head office, and looking over into Camden County, on Page 4 of this exhibit, the figures for First Camden appear

[fol. 2814] Q. How many banks have you shown with there under Camden County.

head offices located in Philadelphia County?

A. We have shown 17.

Q. How many in Bucks County?

A. Nine in Bucks County.

Q. Of course, only one in Delaware County. How many in Montgomery County?

A. Fourteen in Montgomery County.

Q. How many in Chester County?

A. Nineteen in Chester County.

Q. How many in Burlington County?

A. Seventeen in Burlington County.

Q. Camden County?

A. Nine in Camden County.

Q. Gloucester County?

A. Thirteen in Gloucester County.

Q. In Mercer County?

A. Ten in Mercer County.

Q. And in New Castle County?

A. Eight in New Castle County, Delaware.

Q. Why have you included in this exhibit statistics as to banks within all of the ten-county area rather than the four-county area?

A. In the first place, we have business coming from the [fol. 2815] ten-county area. In the second place, as far as the four-county area is concerned, anybody that is, say, on the periphery or the outskirts of the four-county area may find an alternate choice closer in the ten counties than in other locations within the four counties.

Q. In your experience, do you know whether bank customers pay any attention to political boundaries as such?

A. In my experience, the political boundaries have no relation to bank customers, where they do their business.

Mr. Reycraft: I object unless he identifies the bank customers he has in mind.

Mr. von Starck: My question was bank customers in general.

By Mr. Reycraft:

Q. Do you have any particular bank customers in mind?

A. You mean an individual by name or a class of customers?

Q. An individual by name.

A. Could you reread the question, please?

(The reporter read as follows:)

"Q. In your experience, do you know whether bank customers pay any attention to political boundaries as such?"

By Mr. von Starck:

[fol. 2816] Q. I will reframe that question. In your experience, in general, do bank customers pay much attention or any attention to political boundaries in seeking out banks in which to do business?

Mr. Reycraft: I object unless we have the type of customer and a little more specific identification of where we are leading to.

The Court: Overruled. Proceed.

A. In my experience, they do not.

(Document entitled "Alternative Sources of Credit from Commercial Banks Located in Delaware Valley," was marked Exhibit D-16 for identification.)

Q. I ask you to look at this sheet which has been marked D-16. It is entitled "Alternative Sources of Credit from Commercial Banks Located in Delaware Valley," and I ask you to explain this exhibit.

A. The source of this exhibit is the previous exhibit, D-15, in which we have taken figures on the numbers of banks and arranged them as shown on the exhibit here. What this exhibit shows, in general, are the number of banks authorized to make loans within the limits stated. After the Philadelphia National-Girard merger the column of figures at the left shows various sized groups of loans, and the three columns of figures at the right, under "Num-[fol. 2817] ber of Commercial Banks," show the numbers that could make loans within the size groups indicated, separated between Philadelphia County, the four counties, and the ten-county area.

Q. Of course, this shows one that now can make loans up to $15 million or will be able to make loans up to $15 million by reason of the merger?

A. That is correct, because this is after the merger.

Q. For example, explain how many choices there are for a customer who wishes to borrow $10 thousand.

A. For the loans below $10 thousand there are 17 choices in Philadelphia County, 41 choices in the four-county area, and 116 choices in the ten-county area.

Q. And this will be the number after the merger if it is approved?

A. That is correct.

Q. The largest single decrease in the number of banks appears to occur between the lending limit of $250,000 and $500,000. Will you please explain the number of banks which have limits between $250,000 and $500,000?

A. There are 13 that have limits up to $250,000 in Philadelphia, 9 with limits up to $500,000 in Philadelphia, so in that area there is a decrease of 4. There is a decrease of 8 in the four-county area and of 9 in the ten-county area.

[fol. 2818] Q. Which are the four that drop out in Philadelphia?

A. Referring back to Exhibit D-15, the banks with lending limits in Philadelphia between $250,000 and $500,000 are the Finance Company of Pennsylvania, Industrial Trust Company, Frankford Trust Company, and Second National Bank.

Q. Those banks could loan respectively, as I read D-15, $417,000, $330,000, and $300,000; is that correct?

A. Except that the Finance Company you omitted, with $457,853 lending limit.

Q. So that between $250,000 and $500,000 we have these four banks of intermediate size?

A. That is correct.

Q. Why have you included in the number of banks available for making loans the Finance Company of Pennsylvania and Pennsylvania Warehousing?

A. As I understand it, they both do make loans in certain areas of banking, so that is one reason. A second reason is that they are a potential source of competition or of alternate choice.

Q. They already have charters and are in business; is that not so?

A. That is correct.

Q. Do these choices of commercial banks that are shown [fol. 2819] on Exhibit D-16 represent the full number of commercial banks available to customers in this area?

A. They do not.

Q. Why is that?

A. Some place in the size groups, I would say it was some place above $100,000 as far as the loan is concerned, the borrowers will have alternate choices of going to other cities outside of the ten-county area.

Q. So that above the limit of, let us say, $100,000 there should be added an indeterminate number of other commercial banks in other parts of the country which would be available to borrowers of such magnitude; is that correct?

A. That is correct.

Q. Do you have any idea of the number of banks in New York which are seeking this type of business in Philadelphia and elsewhere?

A. In very round numbers—I don't know—ten or fifteen.

Mr. Reycraft: I object unless he can be more specific than that.

The Court: Read the question.

(The last question was read.)

The Court: The objection is overruled. Proceed.

[fol. 2820] (The last answer was read.)

(One-page document headed "Number of PNB Loans to Customers Located Within the 4-County Area, Distributed by Size and Type of Loan" was marked Exhibit D-17 for identification.)

Q. I ask you to look at this single sheet which has been marked for identification as Defendant's Exhibit 17 and ask you to explain that.

A. Exhibit D-17 shows the number of Philadelphia National loans to customers located within the four-county area, distributed by the size of loan and the type of loan. The size of loan is in the same groupings as indicated and used on Exhibit D-16, and the types of loans are broken down into commercial and industrial, consumer installment, real estate, all other, and then the total is shown.

Q. What is the source of the information shown on D-17?

A. This information comes from Philadelphia National Bank's records.

Q. How was the number of loans under $50,000 determined?

A. For commercial and industrial loans under $50,000

[fol. 2821] the data are based on an actual count on September 21, 1960, to determine the total number. The breakdown of these into the three categories of size group is based on an analysis of sample figures submitted to the Justice Department. For consumer installment loans they are all under $10,000, and the "real estate" and "all other" loans are based on samples also given to the Justice Department.

Q. In your opinion, is this representative of the number of loans outstanding by PNB at a typical time?

A. Yes. We have used different dates here for the sample, but we are dealing with large numbers, in any event, and, in my opinion, this represents a typical number that would be expected, say, during the year 1960 or early 1961.

Q. What percentage of the total number of loans is represented by the number of loans under $10,000?

A. The total number under $10,000 is 58/60 in round numbers, so it is about 97 per cent.

Q. Referring back to Exhibit D-16, is it true that 96 per cent of Philadelphia National Bank's customers after the merger would have a choice of alternate banks numbering 41 in the four counties or 116 in the ten counties?

[fol. 2822] A. That is correct.

Q. Now, turning particularly to the commercial and industrial category, what percentage is there of the total number of commercial and industrial loans under $100,000?

A. Under $100,000 the percentage is somewhat in excess of 80 per cent.

Q. Isn't it approximately 90 per cent?

A. It is closer to 90, yes.

Q. And there are only 248 loans over $100,000, are there not?

A. In the commercial and industrial category, yes.

Q. So that 90 per cent of the customers for commercial and industrial loans of the Philadelphia National Bank would have how many choices? I refer you again to Exhibit D-16.

A. According to the Exhibit D-16 there would be fourteen choices in Philadelphia County, 27 choices in the four-county area, and 51 choices in the ten-county area.

Q. And that is after the merger, is it not?

A. That is correct.

(Booklet entitled "Comparison of Relative Growth of Deposits of Banks in the Delaware Valley with Deposit [fol. 2823] Growth of the Philadelphia National Bank and Girard Trust Corn Exchange Bank" was marked Exhibit D-18 for identification.)

Q. I show you a booklet entitled "Comparison of Relative Growth of Deposits of Banks in the Delaware Valley With Deposit Growth of the Philadelphia National Bank and Girard Trust Corn Exchange Bank, which has been marked as D-18, and ask you whether that was prepared under your supervision.

A. The basic information of this was prepared by the Girard Trust Corn Exchange Bank. I have followed the preparation of it, I spotchecked the results, I know the sources from which it came, and I am confident in the manner in which the figures were put together.

Q. What are the sources from which this information shown in this exhibit were obtained?

A. The information for this exhibit was taken from Polk's Directory.

[fol. 2824] Q. Now will you turn to the first chart shown there, which is entitled "Percentage Growth of Deposits of Banks with Main Office in Philadelphia County," and explain how that was prepared and what it shows.

A. This chart was prepared by taking the figures for December 1951 and for December 1960 for each of the banks shown and computing the percentage increase in deposits from those figures.

The figures——

Q. How were deposits acquired by merger treated in compiling these statistics?

A. The deposits acquired by merger were included in the base figures of each of the banks as shown here. The details in figures are in the back of the book.

Q. In order to understand clearly how mergers were treated here, will you take the statistics relating to the Philadelphia National Bank, which are on page 3 of the statistical data in the back, and explain that in some detail?

A. Page 3 shows the names of each of the banks that have merged with Philadelphia National during the period under discussion. It shows the dates the banks were acquired, it shows for each of those acquired banks their

deposits as of December 31, 1951, which then are added to deposits of Philadelphia National as of December 1951 in order to arrive at the total shown for that year, $920,712,000.

[fol. 2825] Q. And what do you call this type of growth after adjusting for mergers?

A. After adjusting for mergers in this way I would call this the natural growth of the Philadelphia National Bank as presently constituted.

Q. Now will you turn back to the chart showing the relative growth in Philadelphia County and explain that in a little more detail?

A. The first chart showing the relative growth of banks in Philadelphia County shows that on the average during the period 1951 to 1960 the banks have grown at the rate of 21.9 per cent.

For individual banks, Philadelphia National and Girard's growth is somewhat smaller. That can be seen; we can get the actual figures if you would care to have them in the record.

Q. Please do.

A. Philadelphia National's per cent was 13.9, and Girard Trust Corn Exchange 14.4.

Q. And that compares with the average of 21.9 per cent for all banks?

A. That's right.

Q. How many banks in Philadelphia grew at a faster pace than did Philadelphia National Bank and Girard?

A. There are eleven that grew at a faster pace.

[fol. 2826] Q. And how many less rapidly?

A. There are three in Philadelphia itself. Brown Brothers also grew less rapidly, though, of course, the figures here are representative of a wider area than merely Philadelphia.

Q. Now will you turn to page 2, which shows the relative growth of banks in Bucks County, and explain that?

A. This shows in the black bars the per-cent growth of all banks with headquarters in Bucks County and it compares their percentage growth with the percentage growth of Philadelphia National and Girard as indicated at the left of the chart; and these percentage growths are, of course, the same as appeared on the first chart.

Q. And all of the banks in Bucks County grew more than did either Philadelphia National Bank or Girard; is that correct?

A. That is correct.

Q. Now will you turn to page 3, Delaware County, and explain that?

A. This shows the same thing for the one bank in Delaware County, the Delaware County National Bank, located in Chester; and it shows that its percentage growth has been somewhat upward of 95 per cent compared with the same figures for Philadelphia National and Girard Trust as shown before.

Q. Now will you do the same for Montgomery County, at page 4?

A. In Montgomery County there are fourteen banks. [fol. 2827] Thirteen of them grew faster than either Philadelphia National or Girard Trust. One grew at a slower rate as far as deposits are concerned.

Q. What was the percentage growth of the Bank of Old York Road?

A. The percentage growth of the Bank of Old York Road was something over 1,116 per cent. That is measured from December 31, 1952.

Q. Now will you turn to Chester County?

I first of all ask you why you show Philadelphia National Bank's and Girard's growth as against Chester County banks, although neither one of them has nor is entitled to have branches in Chester County?

A. We show them in order to get the relative growth between us and the banks in the area; also the fact that despite the fact that we have no branches there we do have business coming from Chester County.

Q. What have been the results of banking in Chester County since 1951?

A. Seventeen of the banks showed a larger percentage increase in deposits than Philadelphia National or Girard Trust Corn Exchange. Two showed a smaller percentage growth.

Q. How about Burlington County on page 6?

A. In Burlington County, all seventeen banks showed a [fol. 2828] larger per-cent growth.

Q. And how about Camden County, page 7?

A. In Camden County, all nine banks showed a larger percentage growth.

Q. How about Gloucester County?

A. In Gloucester County twelve showed a large percentage growth; one showed a slower growth.

Q. And Mercer County on page 9

A. In Mercer County, all ten showed a larger percentage growth.

Q. And New Castle County in Delaware?

A. In New Castle County, Delaware, seven showed a larger percentage growth; one showed a smaller percentage growth.

Q. Summarizing this exhibit, how many banks are there shown on this exhibit?

A. There are 142 shown on the exhibit—excuse me. That is incorrect.

Q. How many are there?

A. There are 116 shown on the exhibit, including Philadelphia National and Girard Trust.

Q. And of the 116 shown on this exhibit, how many have grown at a faster rate than has either the Philadelphia National Bank or Girard?

A. 106 have grown at a faster rate, 8 at a smaller rate; and the other two, of course, are Philadelphia National [fol. 2829] and Girard.

Q. What conclusions do you draw from the information shown on this exhibit?

A. I would certainly conclude from this exhibit that as far as deposit growth is concerned, virtually every bank in the area has shown a healthy and a fine growth in relation to the way that our own two banks have grown.

I would also conclude that the dominance of relatively large banks has not prohibited the growth of the smaller ones since, if you look through these figures, you will see that the percentage increase is not limited to the big banks.

Q. While we are on this subject of growth, will you turn to page 80 of the application, which is G-57?

Do you have a copy?

A. No, I don't have that.

Q. Are you familiar with the figures shown on page 80 of the application?

A. I am.

Q. Did you have any part in the preparation of those figures?

A. Yes. I didn't actually prepare them myself. They were prepared partially under my supervision and I have checked them.

[fol. 2830] Q. It appears there that you have compared the deposit growth of the Philadelphia National Bank and the Girard by adjusting for mergers, and by adjusting all the commercial banks in Philadelphia for mergers. Is that not so?

A. That is correct.

Q. You have not done the same thing for member banks in the Third Federal Reserve District or for all commercial banks in the United States.

I ask you why you did not adjust the statistics of those other banks for mergers.

A. Let us take all active banks in the United States to start with.

No adjustment for merger is necessary because every bank in the country is in those figures. Whether or not they are under 13,000 managements or 14,000 or whatever number, the merger adjustment is not necessary.

Q. In other words, that 54.62-per cent increase in deposits for all active banks in the United States is the absolute percentage by which deposits of all banks have increased; is that not so?

A. That is correct.

Q. And the same is true for the Third Federal Reserve District, where 40.69 per cent is shown; is that not correct?

A. That is correct.

[fol. 2831] There would be a little variation there, but I don't believe there is, that a merger between districts might conceivably have a minor effect here.

I suspect there were no such mergers, though I can't say accurately that there were not.

Q. Do you believe that it is statistically valid to show the comparison between Philadelphia National Bank adjusted for mergers and all the member banks of the Third Federal Reserve District and all active banks in the United States without adjustments for merger?

A. Yes. I do.

Mr. von Starck: Will you mark this for identification, please?

(Bound document entitled "Loans, Deposits and Loan-Deposit Ratios, Before and After Merger, for Offices Acquired by the Philadelphia National Bank (1950-1960)," was marked Exhibit D-19 for identification.)

By Mr. von Starck:

Q. There has been marked and distributed the booklet entitled "Loans, Deposits and Loan-Deposit Ratios, Before and After Merger, for Offices Acquired by the Philadelphia National Bank."

I show you this exhibit and ask you if it was prepared under your supervision.

[fol. 2832] A. It was, yes.

Q. Will you please explain in general the nature of the information that is shown in this exhibit?

A. In general, this information shows for the period 1950 through 1960 the total deposits, the total loans, and loans as a per cent of deposits for each of the offices or groups of offices acquired by merger of the Philadelphia National Bank.

Q. What was the purpose of making this study?

A. The purpose of making this study was to compare the loan results after the merger with the pre-merger loan performance of the independent bank.

Q. Is this a measure of the nature of treatment that the bank has afforded the customers in the local community?

The Witness: Could you read the question? I am sorry.

(The pending question was repeated by the reporter.)

The Witness: I would say it was, yes.

By Mr. von Starck:

Q. Now will you turn to page 1 and explain what is shown in that table?

A. Page 1 shows in the top chart the total deposits and the total lines—total loans at the end of 1950, 1951, 1952, and 1953, and on the merger date, on February 19, 1954, [fol. 2833] and from there on shows post-merger figures on a daily-average basis.

Q. How many offices are there in the Chester area?

A. There are four offices in this area.

Q. How many were acquired by the merger in 1954?

A. Two were acquired by merger.

Q. Are all of those offices accounted for as a group?

A. All four offices are accounted for as a group, yes.

Q. What happened to deposits immediately after the merger?

A. Immediately after the merger, deposits fell off a bit.

Q. What happened to loans?

A. Loans went up.

Q. And what was the loan-deposit ratio prior to the merger and what was it a year after the merger?

A. Prior to the merger the loan-deposit ratio was between 23 and 24 per cent. The average for 1955, which was the first full year after the merger, was 35.7 per cent.

Q. And what was it for the year 1960?

A. For 1960, the loan-to-deposit ratio is 49.1 per cent.

Q. So that it has virtually doubled since the time of the merger; is that correct?

A. That is correct.

Q. Now will you take a look at page 2, Bucks County offices, and explain or point out the increase in the loan-deposit ratio since the time of the merger in 1956?

[fol. 2834] A. Immediately prior to the merger, or let's say on the merger date the loans-to-deposits ratio was 44 per cent. For the year 1960 it was 85.2 per cent.

Q. How many offices are there within this group?

A. There are five offices in this group.

Q. Were they all acquired by merger?

A. Yes, they were.

Q. How about the Lansdale office on page 3?

A. Lansdale is a single office acquired by merger. In 1950 the loan-to-deposit ratio was 32.6 per cent. On February 19, 1954, it had advanced to 38.9 per cent immediately preceding the merger. For the year 1960 as a whole it averaged 72.5 per cent.

Q. And how about the Citizens' office at Pottstown, page 4?

A. The Citizens' office in Pottstown in 1950 was 37.9 per cent. At merger date in 1955 it was 42.8 per cent. In 1960 it averaged 83.4 per cent.

Q. How about the Conshohocken office, page 5?

A. The Conshohocken office, on page 5, had a ratio of 13 per cent in 1950; 22.8 per cent on merger date in 1953; and 67.9 per cent average for 1960.

Q. How about the Hatboro office on page 6?

A. The Hatboro office had a ratio of 26.3 in 1950; 30.6 on [fol. 2835] merger date in 1955; and 45.8 on the average for the year 1960.

Q. That loan-deposit ratio seems to have dropped off in 1960.

Do you have any explanation for that?

A. If you look at the absolute figures on deposits and loans at the top of the chart, you will see that deposits kept going up during the years 1959 and 1960.

The actual loan demand leveled off somewhat during 1959 and actually, during 1960, declined a small amount.

In my opinion it was just a local situation of lack of loan demand or a slackening of loan demand, let's say, during the year 1960.

Q. Will you take a look at the absolute figures for the Hatboro office in the back of the booklet?

Does that help you in any of your information?

A. I could put quantities in. I think I was looking at these when I was explaining.

Q. I see.

And that shows that in the gross loans, actually, they were reduced between 1959 and 1960, does it not?

A. That is correct.

Q. Slightly?

A. Yes.

[fol. 2836] Q. Now will you take a look at the Northeast Philadelphia offices on page 7 and explain that?

A. The Northeast Philadelphia offices are a group of five offices all acquired by merger on September 20, 1951.

As far the actual growth in deposits is concerned, you can see that up through 1957 not very much happened. There has been an upturn since that time.

As far as loans are concerned, there was a low in 1952. There has been a steady increase in loans since that time with the exception of the year 1958, where there was a slight falling-off, and then a continued rise in 1959 and 1960.

As far as the ratio of loans to deposits is concerned, it was 13.1 per cent on the date of the merger and has increased to 32 per cent for the year 1960.

Q. Has the demand for loans in the Northeast Section in your offices developed in the way at which it had been hoped?

A. This is an old and relatively mature part of the city. We certainly have made satisfactory increases in the total amount of credit available. The total loans have increased 194 per cent during this period.

Q. Has there been a demand for loans in the Northeast Section equal to what you had anticipated?

A. I was not comptroller at the time this merger took place, so I wasn't anticipating in 1951.

[fol. 2837] Q. Now will you take a look at the pages——

The Court: Let's go on at 2 o'clock, Mr. von Starck.

(Recessed for luncheon at 12:25 o'clock P. M.)

[fol. 2838] AFTERNOON SESSION

WISTAR H. MACLAREN, resumed.

Direct examination (continued)

By Mr. von Starck:

Q. Mr. MacLaren, just before lunch break we were up to the Montgomery County office in Norristown, Exhibit D-19. Will you please explain that. It appears on Page 8.

A. Page 8 of the exhibit shows the same thing for Montgomery (Norristown) office, a rise in deposits that started in 1951, continuing almost uninterrupted throughout the period, a modest rise in loans from 1950 until the merger date, and then increasing sharply thereafter, and the ratio of deposits to loans picking up a little bit after the merger in the first year and then picking up sharply during 1956 and thereafter.

Q. Have you computed the average loan deposit ratio for all the suburban branches of Philadelphia National Bank?

A. Yes, I have.

Q. What is that ratio?

A. For 1960 it was 67.2 per cent.

Q. What is the average loan deposit ratio for the bank as a whole?

A. For 1960 58.1 per cent.

[fol. 2839] Q. So that the loan deposit ratio for the branches exceeded the loan deposit ratio for the bank as a whole?

A. That is correct.

Q. What conclusion, if any, do you draw from that?

A. I draw the conclusion from that that as a result of the mergers, the management of the combined bank has not been draining deposits out of the suburban areas for loaning elsewhere.

Q. Are the pages in the back of D-19 following the graph for the Montgomery office the statistical statements for the branch-itself?

A. They are, yes, sir.

(Single sheet entitled "Size of Banks Relative to Population, 1959-1960" was marked Exhibit D-20 for identification.)

Q. I ask you to look at a single sheet entitled "Size of Banks Relative to Population, 1959-1960," which has been marked as Exhibit D-20, and ask you to explain that.

A. This exhibit takes the ten largest metropolitan areas in the country, as indicated along the bottom, where the area and the population of the area is indicated. The scale on the left, in billions of dollars, shows total assets of the five largest banks within each such area. The scale on the right, of population in millions, shows the population of [fol. 2840] each area that is represented by the horizontal lines throughout the chart.

Q. What have you shown specifically for Philadelphia?

A. For Philadelphia the first bar, which is represented with cross-hatching, represents the pro forma figures for Philadelphia National-Girard combined. The second vertical bar, which is in heavy black, represents the First Pennsylvania Company. The other three are Provident Tradesmens, Fidelity, and Central-Penn respectively.

Q. The line showing the population coincides physically

with the top of the vertical bar showing the assets of the merged bank, does it not?

A. It does, yes.

Q. With regard to the other cities shown there, what are the sizes of the large banks in relation to the population of those cities?

A. The sizes and relation of the population, if you take New York, for example, the first bank with assets of close to 8½ billion compares with a population of 12 billion 9. The 12 billion 9 is represented by the horizontal line running through New York.

Q. Is it not true that with respect to New York there are two banks which exceed their proportionate population?

A. That is true, yes.

[fol. 2841] How about Chicago?

A. There is one such bank in Chicago, since the vertical bar sticks up above the horizontal line.

Q. How about Los Angeles?

A. In Los Angeles there are two.

Q. In Detroit there is one?

A. There is.

Q. The same is true of Boston. How about San Francisco?

A. In San Francisco there are four.

Q. Pittsburgh?

A. Pittsburgh 1. None in St. Louis and two in Cleveland.

Q. Now you turn to Exhibit G-57, which is the application for merger, and specifically turn to Page 127. What does Schedule 1 on Page 127 of Exhibit G-57 show with regard to Philadelphia?

A. Schedule 1 shows, with regard to Philadelphia, that in population for the city only in 1959 Philadelphia ranked fourth out of the twelve largest metropolitan areas in the country. In 1950, considering not only the city but the outside metropolitan area, Philadelphia likewise ranked fourth.

Q. Turn to Page 128. What does the information on that page disclose with regard to the relative rank of Philadelphia with respect to retail sales, number of production [fol. 2842] workers, wages, and value added by manufacture?

A. This schedule shows, in terms of retail sales, for the

total metropolitan area in 1954, which was the most recent available data we could find, Philadelphia ranked fourth; in average number of production workers for 1957 Philadelphia likewise ranked fourth; and in 1957 wages we ranked fifth; and in value added by manufacture we likewise ranked fifth.

Q. Will you turn to Page 132 of Exhibit G-57. Will you tell us what is the comparative rank of the leading bank in Philadelphia in relation to other metropolitan areas.

A. The comparative rank of the leading bank in Philadelphia in December, 1959, in relation to other areas was 9.

Q. And what was the leading bank's position with regard to national ranking of all banks?

A. The leading bank's national ranking was 20.

Q. So that, as I understand it, Philadelphia ranked 20th with regard to its leading bank nationally, and yet, as you have shown on these other sheets, it ranked fourth or fifth with regard to the indicators of production; is that correct?

A. That is correct.

Q. If the merger goes through, what will be the comparative rank of the new bank in relation to the leading banks [fol. 2843] of metropolitan areas?

A. The comparative rank will move up from 9 to 7.

Q. And how about its rank in relation to all banks?

A. It will move up from 20 to 15.

Q. So that the record is complete, what is the information shown on Pages 129 through 131 of G-57?

A. The information shown on those pages gives, for the five largest banks in each of the metropolitan areas we have mentioned before, as of December 31, 1959, the total loans of each bank, the total assets, the total deposits, the total capital and surplus, and total capital accounts.

Mr. von Starck: I would like to have marked at this time for identification as Defendant's Exhibit 21 a series of sheets showing statistical information with regard to banks in reserve cities. These sheets were supplied to the defendants, if Your Honor pleases, by the Department of Justice in response to a request for production of documents made to the Department by the defendants, and they were described at the time they were supplied as a study made in the Comptroller's office of banking concentration

in reserve cities, which study had been turned over to the Department of Justice. We will subsequently have a wit- [fol. 2844] ness who will testify in detail with regard to these, but I am asking that it now be marked for identification for the purposes of reference in the succeeding testimony of Mr. MacLaren.

(Series of sheets showing statistical information with regard to banks in reserve cities was marked Exhibit D-21 for identification.)

(Single sheet headed "Assets of Largest Commercial Bank as per cent of Total Assets of all Commercial Banks in Reserve Cities and Central Reserve Cities" was marked Exhibit D-22 for identification.)

Q. I show you a single sheet marked D-22 and entitled "Assets of Largest Commercial Bank as per cent of Total Assets of all Commercial Banks in Reserve Cities and Central Reserve Cities," and I ask you if you obtained the information shown thereon from the Exhibit D-21.

A. Yes, I did.

Q. Will you explain this exhibit.

A. I think the title of this exhibit might have read a little bit better "Assets of the Largest Commercial Bank," to give the connotation that this is comparing within each city the leading bank with the total bank resources within the city.

This shows as of December 30, 1956, the per cent of [fol. 2845] total assets within the cities held by the largest bank therein, and for Philadelphia it shows, for December 31, 1960, pro forma, giving effect to the merger, the same type of percentage.

Q. So that you are comparing Philadelphia after the merger with the actual facts which existed in reserve cities on June 30, 1956?

A. That is correct.

Q. What is a reserve city?

A. A reserve city is designated as such by the Federal Reserve Board, and it depends upon the proportion of correspondent bank business that is done within that city. If I recall, it has to a third of one per cent of the total correspondent bank business throughout the whole country to qualify a city as a reserve city.

Q. How many reserve cities are there?

A. There are 53 such reserve cities.

Q. What will be the concentration or the percentage of assets held in Philadelphia by the merged bank after the merger?

A. 36.16 per cent.

Q. And as among the 53 reserve cities, in how many such cities was there a bank in 1956 which held a larger percentage of total assets in that city?

[fol. 2846] A. There were 31.

Q. How many cities were there in which a lesser amount was held?

A. There would be 21.

Q. So that Philadelphia would rank 32nd in that list of 53; is that correct?

A. That is correct.

Q. After the merger?

A. Correct.

(Single sheet entitled "Assets of Five Largest Commercial Banks as per cent of Total Assets of Commercial Banks in Reserve Cities and Central Reserve Cities" was marked Exhibit D-23 for identification.)

Q. I ask you to look at a single sheet which has been marked D-23, and entitled "Assets of Five Largest Commercial Banks as per cent of Total Assets of Commercial Banks in Reserve Cities and Central Reserve Cities," and ask you if you obtained that information from D-21.

A. I did, yes.

Q. Will you please explain this.

A. This exhibit is a parallel piece to D-22, except that instead of showing the assets of the largest bank as a per cent of the total, it shows the assets of the five largest banks as a per cent of the total within each city.

[fol. 2847] Q. How does Philadelphia rank or how will Philadelphia rank after the merger in relation to all the other central reserve cities on this basis?

A. On this basis Philadelphia will rank 43 out of 53.

Q. There will be 42 reserve cities with a higher concentration than Philadelphia has?

A. That is correct, yes.

(Two-page document headed "Lending Limit Data, 12/31/60" was marked Exhibit D-24 for identification.)

Q. What is the source of the information with regard to lending limits on Exhibit D-24?

A. The lending limit data taken for Exhibit D-24 was derived from "Moody's Bank & Finance Manual 1961" or from "Polk's Bank Directory March 1961." We mentioned also a "Compilation of Capital Funds" by the Republic National Bank of Dallas. This is put in because they had a very handy, ready arrangements already set up in which they listed banks in descending order of lending limit. That provided us the basis for primary order of these, but we checked the sources against Moody's or Polk's.

Q. Looking at Page 2 of Exhibit D-24 will you tell the Court what the total of all the lending limits of the banks in Philadelphia is.

A. The total lending limit of all banks in Philadelphia as [fol. 2848] shown on this page, $38,097,831.

Q. What is the total of the lending limits of all banks in Philadelphia which have lending limits in excess of $1 million?

A. $35,642,978.

Q. By reference to Page 1 of D-24, how many banks are there in the United States which have individual lending limits in excess of the total for all banks in the City of Philadelphia?

A. There are four such banks.

Q. Are there the same number of banks which have individual lending limits in excess of $35,642,000?

A. Yes, there are.

Q. How many banks are there in the United States which have lending limits in excess of $15 million, which will be the lending limit of the merged bank?

A. There are 13 such banks.

Q. How many banks are there in the United States which have a lending limit in excess of the present lending limit of the Philadelphia National Bank, which is $8 million?

A. There are 20 such banks.

[fol. 2849] Q. Returning again to Exhibit D-24, will you please explain what the term "national rank" means, which appears on the left side of each of the two sheets?

A. National rank as used here means the rank of each bank nationally in terms of its total lending limit.

Mr. von Starck: D-25.

(Four-page document, first sheet of which is captioned "A Comparison of General Economic Growth with Bank Growth in the Delaware Valley (1940-1959, except as noted)," was marked Exhibit D-25 for identification.)

By Mr. von Starck:

Q. Now you have before you four sheets fastened together which have been marked as D-25, the top sheet of which is entitled "A Comparison of General Economic Growth with Bank Growth in the Delaware Valley."

I ask you if this was prepared under your supervision.

A. It was, yes.

Q. Will you please explain what that series of bars shows on the first page?

A. The series of bars on the first page is broken in two categories, one of general economic-growth indicators and one category of bank-growth indicators.

Under the general economic-growth indicators, the first [fol. 2850] vertical bar shows total sales of large corporations. The second shows value added by manufacture; and the third shows personal income.

Q. Where did you obtain the information as to total sales by large corporations?

A. The total sales by large corporations as shown on page 2——

Q. Isn't it on page 3?

A. I am just looking for the source.

No, it shows on page 2, I think, in the third paragraph, with the names of the companies that were selected from the 1960 directory of the 500 largest U. S. industrial corporations and the 50 largest banks, merchandising, transportation, life-insurance, and utility companies published by Fortune Magazine in August, 1960.

That provided us with the lists of names. The data on sales were taken from Moody's manuals.

Q. Well, you didn't use all 500 of the industrial corporations, did you?

A. No. We used only those whose head office—whose headquarters was nearer to Philadelphia than to any other major financial center.

Q. Are the figures with regard to growth of those corporations shown on page 3?

A. Yes, they are, as far as the industrials are concerned; [fol. 2851] and as far as the merchandising firms, the utilities, and the transportation companies, on page 4.

Q. What has been the composite growth of those 21 corporations in the Philadelphia area from 1940 through 1959?

A. The composite growth of the 21 largest industrials, using 1940 on an index basis as 100 has grown to an index of 427 by 1959.

Q. And what has been the growth in value added by manufacture?

A. The value added by manufacture, 472 on an index basis.

Q. Is that value added by manufacture related to this area?

A. That is related to the Philadelphia standard metropolitan area.

Q. What has been the growth in personal income from 1940 through 1957 for the Philadelphia area?

A. For the Philadelphia area, 405 on an index basis.

Q. And by comparison with those economic-growth indicators, what has been the growth of the total assets of all Philadelphia commercial banks?

A. All Philadelphia commercial banks have grown to 227 on an index during the period 1940 to 1959.

Q. Which appears to be less than half of the growth of the industrial, the value added by manufacture, and personal income?

[fol. 2852] A. Less than half the value added by manufacture, a little bit more than half on the personal income.

Q. And at the same time what has been the growth in the lending limit of the Philadelphia National Bank?

A. 229 on an index basis.

Q. What would have been the growth in the lending limit of the Philadelphia National Bank and Girard combined if the merger were to take place at this time?

A. We show two measures here—one, 386, which is the figure of 1959 pro forma; 429, which is the figure corre-

sponding to the $15,000,000 lending limit proposed for the combined bank.

Q. Will the lending limit of the merged bank be approximately equal to the growth in the other general economic indicators if the merger goes through?

A. Yes, during this period.

Q. What conclusions, if any, do you draw from the information shown on this exhibit?

A. I draw the conclusion that in so far as general bank growth is concerned and the growth in lending limit of any bank, or at least of the major bank at the present time, has lagged behind the economic growth since 1940.

Q. Incidentally, I don't think you explained what the white cap is on the third bar or the bank-growth indicators.

The Court: He has to me.

[fol. 2853] Mr. von Starck: D-26.

(Document entitled "Excess of Average Deposits Over Average Loans of All PNB Customers With Credit Lines of $8,000M, or More," was marked Exhibit D-26 for identification.)

By Mr. von Starck:

Q. I ask you to look at a single sheet which has been marked D-26, which is entitled, "Excess of Average Deposits Over Average Loans of All PNB Customers With Credit Lines of $8,000M or More," and tell us what the source of that information is.

A. The source of this information is from Philadelphia National Bank records.

Q. Now will you please explain the format of this exhibit?

A. This exhibit shows for customers which are numbered, not named, the total amount of the line of credit, the average deposits for 1960, the average loans for 1960, and the excess of deposits over loans.

Q. How were the average deposits and average loans determined?

A. These are determined on a daily basis by taking the deposits and the loans on each of the 365-day outstanding and dividing by 365.

Q. What is the total of the excess of deposits over loans for these 27 top-line customers?

[fol. 2854] A. $60,783,000.

Q. What is the relationship between the average deposit and the average loan?

A. The average deposits are 203.3 per cent of the average loan.

Q. There has been considerable talk in this case about banks needing deposits approximately equal to 20 per cent of loans.

Does this represent the fact that in the case of at least these top customers deposits far exceed the 20 per cent that has been spoken of?

A. Yes, it does.

Q. How do you account for that fact?

A. I think the 20 per cent figure is a limiting figure that was asked in relation to if you are looking for a new line of credit, what type of balance would you initially want against that or against the loan.

What is involved here is the fact that for these top customers there are many other services you perform, other than the mere loan service; and these other services carry with them very substantial deposit balances.

Q. In other words, once you obtain a customer you attempt to build up the deposits by rendering additional services besides making the loans?

A. That is correct, yes.

[fols. 2855-2858] Q. Now, this Exhibit D-26 represents the actual results of all the customers that the banks which have a lending limit——

The Court: We will take a ten-minute recess.

(A recess was had.)

The Court: Gentlemen, I am not going to sit down. I am recessing, calling off court, for the day. Judge Egan just had an attack.

(Recess taken at 2:47 o'clock P. M. until 10:00 o'clock A. M. on Thursday, July 6, 1961.)

[fol. 2859-2860] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

Philadelphia, Pa., July 6, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2861] (The following took place in chambers:)

The Court: Gentlemen, there is no doubt that this case is not going forward today and that it is not going forward until after Judge Egan's funeral. That is the least we can do.

I want to do a little talking to you personally about when we are going to resume. I left you last week when we were supposed to have a recess of two days. I went to the shore, and I had a massive chill, and ran a temperature for three days of over 102 degrees, which wouldn't break. It finally broke, and, frankly, I am still extremely weak as of now. Yesterday I was able to continue by coming up here in chambers, and for the first time in my life used that couch and I rested for an hour and a quarter. That was the way I got back on the bench yesterday afternoon. I just am very weak.

Now, would it make that much difference to your case if we start a week from Monday and give me a chance to get back on my feet?

Mr. Littleton: We will be guided entirely by Your Honor.

The Court: The doctor was going to part my hair with an ax when I told him I was coming back. He was decidedly against it, and after the shock I had yesterday I have no [fol. 2862] desire to continue at this point.

Mr. Price: I can understand that perfectly well.

Mr. Littleton: Are you sure you want to continue Monday a week?

The Court: That will give me enough time. I am just going to do nothing in the meantime but follow the doctor's orders.

I figured out not too long ago that I have not been away from this office, except for illness, for seven consecutive days in a matter of ten years. That is going a little too hard.

Mr. Price: Yes.

The Court: But I think we ought to make the announcement in open court.

Mr. Price: Yes.

[fol. 2863] (The following took place in open court:)

The Court: Gentlemen, it is with a deep sense of personal loss that I must state of record that our beloved colleague, Judge Thomas C. Egan, died this morning at 2:45 A. M. He was stricken yesterday afternoon in the adjoining room, Courtroom No. 5, and, as you know, we immediately recessed this case.

At this time I will not go on and pay tribute to a wonderful person, a great judge, and a close personal friend. All that will be accomplished at a memorial session of the court which will be convened in due course, but out of respect for our colleague, this court will stand adjourned until after the funeral, which will be held on Monday next.

As to this case, for reasons which I have explained to trial counsel previously in chambers, the trial of this case will stand adjourned until a week from next Monday.

That is all, gentlemen.

Mr. Littleton: If Your Honor please, may I just say one word, and that is that one of our witnesses, the principal expert, Dr. W. Carlton Harris, of the University of Pennsylvania, whom we expected to call here in the case, is sailing for Europe Saturday a week. I have talked to Mr. Reycraft since we talked to Your Honor in chambers, and he very graciously agreed, subject to Your Honor's wishes, that we should take his deposition as a going wit-[fol. 2864] ness beginning next Wednesday morning in our offices.

The Court: It is perfectly satisfactory. I know Dr. Harris. I know his connection with the University, and so forth. I would appreciate it if you do it that way, because I would prefer not to resume the case until a week from next Monday, which would be the 17th.

Mr. Littleton: Thank you.

(Adjourned at 10:15 A. M.)

[fols. 2865-2866] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

Philadelphia, Pa., July 17, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 2867] Mr. Littleton: If Your Honor please, may I say that we are delighted to see you back again and hope you are feeling fine.

During Your Honor's enforced absence we took, with Your Honor's permission, the deposition of Dr. W. Carlton Harris, one of our experts, who had arranged to go to Europe on Saturday. We had to take his deposition, which we did last Wednesday and Thursday.

With Your Honor's permission I would like to begin by having that read into the record. Mr. Reycraft, I believe, has no objection to that. We had Mr. MacLaren, if you remember, on the stand, but by reason of the fact that there were three or four exhibits put in at the time that Dr. Harris was on the stand, this will keep the sequence of numbers better.

The Court: Who is going to impersonate Dr. Harris?

Mr. Littleton: I think Mr. von Starck would be a good actor.

The Court: All right.

Mr. Littleton: And may I say that except for these exhibits that were testified to by Dr. Harris, he testified entirely without notes or memoranda before him.

[fol. 2868] We sent the depositions to him the day before he sailed, which was Friday, and got back word from him that there were one or two errors, and I think when we reach that part of the record, if Your Honor will permit us, we will read into the record the notes which he has sent us with respect to such corrections.

The Court: Very well.

Mr. Littleton: I should add, of course, all objections, except to the form of the questions, were reserved to the time of trial, so one or the other of us may have objections.

(The deposition of W. Carlton Harris was read, as follows, with Mr. Littleton reading the questions and Mr. von Starck reading the answers:)

W. Carlton Harris, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Dr. Harris, where do you live?

A. 3125 West Penn Street, Philadelphia.

Q. And your business or profession?

A. I am an emeritus professor of Finance at the University. I was a professor of Finance until June 30 of this year.

[fol. 2869] Q. How long have you been a professor of Finance at the University of Pennsylvania?

A. I received the rank of professor in 1930.

Q. What has been your education?

A. I have an LLB from the law school of the University of Pennsylvania, a Ph.D. from the Graduate School of the University of Pennsylvania.

Q. In what?

A. In Economics. My major was in Finance.

Q. Did that include banking?

A. It did.

Q. Your teaching experience has been what?

A. I started teaching in 1919 as an instructor. I taught for two years General Economic Theory in the Economics Department of the Wharton School.

In 1921 I transferred to the Finance Department and have taught various Finance courses including commercial banking, from 1921 to date.

Q. Now, in addition to your teaching, do you hold any other positions, particularly those having to do with banking or finance?

A. Yes. I am a member of the Pennsylvania State Banking Board. I am a director of the Broad Street Trust Company in Philadelphia.

[fol. 2870] Q. How long have you been a member of the State Banking Board of Pennsylvania?

A. Since 1955.

Q. Will you tell us briefly what the State Banking Board of Pennsylvania is, what its authority is, and what its functions are?

A. Yes. The State Banking Board consists of ten men named by the Governor, as follows: Four of the appointees are at large and within the discretion of the Governor as to appointment. Six of the members of the Board are appointed by the Governor from lists of nominations furnished by the Pennsylvania Bankers Association. The Pennsylvania Bankers Association in the southeastern portion of the state—I think it is one and two; I am not sure of the numbers—submit five nominees to the Governor, and from whom he is required to appoint two.

The representatives of the Pennsylvania Bankers Association in the central part of the state submit five nominees to the Governor, from whom he is required to appoint two.

Similarly from the Pennsylvania Bankers Association in the western part of the state, they submit five nominees to the Governor from which he appoints two.

That is how the Board is made up. Now, you asked me [fol. 2871] its functions?

Q. Yes. First tell us of which group you are.

A. I am appointee at large.

Q. By the Governor?

A. By the Governor.

Q. And you have been there since when?

A. 1955.

Q. Now its function, its authority. It derives its authority from the statute?

A. It derives its authority from a Pennsylvania statute, and it has the following functions: Its major function is to pass upon applications for branching by state banks in localities outside the political community in which the head office is located. It has the further function of discussing with and advising the Secretary of Banking in respect to changes in the reserve requirements for state banks. It has the additional function and power to remove officers and directors of state banks from office for managing their bank in an unsafe and unsound fashion, and it has a general power to give advice to the Secretary of Banking on such matters as he may call upon it for advice.

Q. Did you mention its function with regard to cross-county mergers?

[fol. 2872] A. My statement that it has a function of passing upon branching, of branches outside the community or political community in which the head office is located, includes cross-county banking.

Q. And you have been a member of that since 1955, did you say?

A. Since 1955. I think January 15. I am not sure of the exact day.

Q. Did you ever hold any position in the Department of Banking itself?

A. Yes, I was Deputy Secretary of Banking from 1935 to 1938.

Q. We are talking, of course, of the Commonwealth of Pennsylvania.

A. Of the Commonwealth of Pennsylvania.

Q. Did you have any particular duties in that department or were they the general duties of the Deputy Secretary of Banking?

A. Well, I was liaison officer, so to speak, between the Secretary of Banking and the Legislature in the matter of the passing of bills sponsored by the Department of Bank-

ing. Those bills were prepared under my supervision. I was in charge of trust examinations specifically. Generally speaking, I was acting as an advisor to Dr. Harr.

[fol. 2873] Q. That is Dr. Luther Harr?

A. Dr. Luther Harr, who was then Secretary of Banking, and with whom I had been long associated at the University of Pennsylvania.

Q. Who is now dead?

A. He is now dead.

Q. Before you were a director of Broad Street Trust Company were you a director of any other bank?

A. Yes, I was a director of the Mid City Bank and Trust Company from 1941 to 1946. When the Mid City merged with Broad Street Trust I became a director of Broad Street Trust and still hold that position.

Q. Are you a member of any committees of the Board at Broad Street Trust?

A. Yes, I am Chairman of the Audit Committee, Chairman of the Salary Committee, Chairman of the Trust Committee, a member of the Executive Committee, a member of the Finance Committee, and I sit by invitation at the weekly meetings of the branch loan officers.

Q. What are the respective functions of the Executive Committee and the Finance Committee? In my book they sound like almost the same thing.

A. Substantially the same functions. They meet alter-

[fol. 2874] nate weeks.

Q. Have you ever acted in any advisory capacity financially to any other municipal corporation?

A. Yes. In 1935 and 1936 I was financial advisor of the City of Camden, New Jersey. In 1936 and 1937 I was financial advisor of the County of Camden, New Jersey.

Q. How about the City of Philadelphia?

A. Well, I was Assistant Treasurer of the City of Philadelphia for four years, from 1938 to 1941 inclusive.

Q. In the course of your military experience, which you haven't touched on, did you get into any banking administrative position?

A. I was a finance officer in military government. When I was in Italy I was finance officer for the provinces of Avilleno and Benevento.

Q. I take it this is the United States Army?

A. Yes, this was the Army of the United States.

Q. And the years?

A. That was 1943 to 1946 inclusive, although I didn't spend all of that time in Italy. While finance officer to the provinces of Avilleno and Benevento I supervised the local banks, aided in providing the funds which enabled them to reopen after the occupancy.

[fol. 2875] Q. Are you a member of any learned societies, Doctor?

A. Yes, I am a member of the American Economic Association and the American Academy of Political and Social Sciences.

Q. What if anything have you written on this subject generally?

A. In conjunction with Dr. Harr I wrote a book on Banking Theory and Practice, published by McGraw-Hill in 1929, and without Dr. Harr's assistance I rewrote it for a second edition in 1936 to incorporate the numerous changes that had occurred in banking as a result of the New Deal legislation.

Q. In the field of research have you done any work, particularly for the Commonwealth?

A. Yes, I did some work for the Attorney General last year and made a brief research into the competitive aspect of national banking in competition with various other financial agencies, such as savings and loan associations.

Q. How about in the administration of Governor Leader?

A. When Governor Leader was elected but prior to his taking office he named a committee to investigate the various departments and make recommendations, and I was [fol. 2876] named to investigate the operations of the Department of Banking and make recommendations to Governor Leader.

Q. Have you had and do you have any position of responsibility with regard to research in this field at the University of Pennsylvania?

A. Well, I supervise student research.

Q. In this field?

A. In the general finance field, including commercial banking.

Q. Have you done any other writing, such as book reviews, Doctor?

A. I have reviewed a number of books. Some years ago the reviews were published in the Annals, the Annals of the American Academy of Political and Social Sciences. As I recall, one was Kilburn's text on money and banking. Another was Burgess' text on Federal Reserve and the Money Market. Another was Jesse Jones' History of the Reconstruction Finance Corporation. I reviewed Dr. Harr's book on branch banking in England. That is all I recall at the moment.

Q. Doctor, may I direct your attention to the commercial banks?

Will you describe for us your opinion of the nature and [fol. 2877] the function of the commercial banks?

A. The commercial banks in this country are those banks that have the power to receive and create demand deposits and to make those deposits available to their customers by honoring checks drawn thereon.

Arising out of their function, the banking system has the power to create a large proportion of our current circulating medium, demand-deposit credits.

Banks are also very important lenders to individuals, partnerships, corporations, municipalities, states, et cetra.

They are the two major functions, I would say, of commercial banks.

In addition to that, they have various other reasonably numerous functions. They receive and administer time and savings deposits. Many of them, though not all, engage in trust functions.

They engage in foreign-exchange activities, financing imports and exports, taking care of the transfer of capital funds into and out of the United States.

They also are the agency or medium whereby the individuals and business world acquire currency for currency [fol. 2878] transactions.

A few of our state banks, but very few, engage in title-insurance activities.

They engage in safe-deposit activities, renting safe-deposit boxes, rendering facilities for the storage of valuable papers and other valuables.

Those, I should say, are the major functions of the commercial banks.

Q. Which of the main functions of the banks compete with each other and with other financial institutions?

A. They compete with each other in the receipt, creation —not the creation, but the receipt and administration of demand deposits. In that respect they are unique, being the only financial institutions in the United States, private financial institutions, authorized to receive demand deposits and make them available for use by honoring checks drawn thereagainst.

They also compete with each other and with other financial institutions in the receipt and administration of time and savings deposits.

They compete with each other and with other institutions in their lending functions.

They compete with each other and with private individuals in certain trust functions.

[fol. 2879] They compete with each other and a few other institutions in the safe-deposit and foreign-exchange functions.

Q. Now, in the area of their attracting demand deposits, are they subject to any restrictions or governmental controls?

A. They are subject to restrictions in most of the activities that I have mentioned.

In respect to demand deposits, they are subject to the restriction that they are not permitted to pay, directly or indirectly, any interest on demand deposits.

Q. You have spoken earlier, Doctor, about their ability to create or increase money or credit.

Do they compete with each other in creating money?

A. I would say not. They compete with each other in the lending function, which, incidentally, creates deposits.

The competition is in the lending rather than in the deposit relation, which is a resultant of that lending activity.

Q. Do you consider that their power to create money gives them any possible cost advantage in competing with other non-bank lenders?

A. Some other bank lenders have, to my knowledge, claimed that the power of the commercial-banking system [fol. 2880] to create money gives them a cost advantage. I do not think that that claim, however, is substantiated by looking at the rates of growth of these institutions.

Q. Have you looked at the rates of growth?

A. Yes. I have.

(Document headed "Relative Growth of Assets of Selected Financial Institutions in the United States 1945-1959," was marked Exhibit D-27 for identification.)

By Mr. Littleton:

Q. Doctor, I show you this document marked D-27 and ask you what it is.

A. This is the "Relative Growth of Assets of Selected Financial Institutions in the United States," from 1945 to 1959.

Q. Was this prepared by you or under your supervision?

A. It was.

Q. And what was the source of the information which appears on D-27?

A. It varies. The source for insured commercial banks, savings and loan associations, and mutual-savings banks was obtained from the Federal Reserve Bulletins. The growth figures and assets are reported every month in the various issues of the Federal Reserve Bulletin, either April or May, I forget, which was the then last available issue [fol. 2881] for these figures.

Q. And from those figures——

A. I haven't quite finished.

Q. I am sorry.

A. The Credit Union Yearbook was the source of our information on credit unions, and for open-end investment companies the source of our figures was Wiesenberger, *Investment Companies*, 1960.

Q. From the information which you have collated on this chart, D-27, what conclusions do you draw?

A. The conclusion that these other competing institutions do not suffer in their competition by their claim or the claim of some of them that banks have a competitive advantage by reason of their ability to create deposits, the rates of growth in the other institutions in all cases substantially exceeding the rates of growth of the commercial banks during that period from 1945 to 1959.

Q. Is that something which is continuing, so far as you know?

A. So far as I know, that is continuing.

Q. Now, you have spoken of competition and we have heard a lot about competition in this case to date.

What do you mean by competition in this area?

[fol. 2882] A. Well, the general concept of competition is the active rivalry of suppliers of commodities or services in seeking to sell their commodities or services to the general public. That is one form of competition which exists in practically all fields of business to a greater or a lesser extent.

Another aspect of competition is cited from the consumer's or buyer's point of view, and I might describe that as being the existence of alternative sources of supply to which or through which buyers may seek either commodities or services.

In that sense the competition may be described as latent.

Q. In your opinion is the latent competition or rivalry as important as the active in the banking field that I am talking about?

A. I think both of them are relatively important. There is a substantial amount of active rivalry among banks in seeking customer business. There is also a latent rivalry in the sense of customers having available to them a very substantial number of alternative sources for the services or commodities that they may desire to obtain.

Q. In the sense in which you have used the terms, does active rivalry and active competition and latent competition or rivalry exist in the Philadelphia area?

[fol. 2883] A. Both of them exist in the Philadelphia area.

Q. In the banking field, I am talking about.

A. In the banking field.

Q. And also in the Delaware Valley?

A. Yes.

Q. What is the character of the competition in banking? Is it of a price character?

A. According to my observation and experience there is comparatively little price competition in banking.

Competition is more likely to take other forms—conveniences, various other services, advice, credit information, physical surroundings, personal relationships, advertising, et cetra. It is rare, I think, that price competition enters

the field, although there are some few instances in which it may.

Q. Are banks permitted to engage in unrestricted competition?

A. They are not. Banks are subject to all sorts of limitations imposed by statute and regulatory decisions for a large number of the services which they render.

Would you like me to enumerate some of them?

Q. Yes, I would, the principal ones, certainly.

A. Well, we can start at the beginning and look at entrance into banking, which is under regulation.

[fol. 2884] Turning to the national system, no bank can be organized unless it meets certain minimum capital requirements set up by the National Banking Act. The same thing is true in practically all states for state banks, although the minimum capital requirements do not necessarily coincide in dollar volume with the capital requirements imposed upon national banks.

Furthermore, even if the capital requirements are met, the Comptroller of the Currency and the state authorities are authorized to decline or refuse the granting of a charter if, in their opinion, it will give rise to destructive competition in the area in which the new bank is to be established. The Comptroller of the Currency or the secretaries of banking, as the case may be, have to be assured that there is adequate business in that area to support the activities of an additional bank without unduly weakening the bank or banks already in existence in that community.

In that sense, although the supervising authorities are not opposed to some competition, both the law and the policies of supervising authorities are strictly opposed to destructive competition.

The safety of banks is an important and major factor from supervising authorities' point of view primarily because they hold the deposits of the general public, which [fol. 2885] constitutes the life blood of our economic enterprise. It is the desire of supervising agencies and the legislatures to prevent banks from failing so far as possible. The supervising agencies would rather have two strong banks than three weak ones in a given community. In that sense the competition between banks is definitely limited.

I have already mentioned in respect to demand deposits that laws prohibit price competition in that field by prohibiting the payment of any interest, directly or indirectly, on demand deposits.

Turning to time and savings deposits, competition is limited to some extent by regulatory maxima, the laws fixing maximum rates of interest which may be paid on time and savings deposits.

Turning to the lending activities, they are subject to various and sundry governmental regulations which, to some extent, limit competition in that field.

There are extensive limitations imposed upon banks in making real-estate loans, both as to the aggregate volume of such loans as they are permitted to make and as to the characteristics of the individual mortgages or liens on the real estate, limited to the percentage that they can lend as to the appraised value of the real estate, the maximum maturity of the loan and so forth.

[fol. 2886] As far as the general business loans are concerned, under the national system the banks are not permitted, with some exceptions, to make loans in excess of 10 per cent of their capital and surplus to any one borrower. Similar laws exist in many, if not most, of the states.

Interest rates chargeable on various types of loans are subject to legislative and administrative limitations.

The general state usury laws and variations of that in respect to certain types of lending—in consumer lending, the maximum interest rates permissible to be charged by banks are limited by law.

Q. How about low rates? You are speaking of the maxima; how about the minima?

A. The loan interest?

Q. The low point.

A. What?

Q. The low limits on loan interest.

A. Well, I don't know that there is any legislative low limit on loans. Practically, in the commercial-lending field, for larger borrowers at any rate, the lower limit is fixed in the main by the prime rate.

Q. What are the earning assets of a bank?

A. The earning assets of a bank?

[fol. 2887] Q. The earning assets of a bank.

A. The earning assets of a bank are primarily its loans and investments. It also has income from other services and other sources.

Would you like me to enumerate them?

Q. Yes, if you would.

A. Well, it has income from service charges. It has income from the safe-deposit department, it has income from its trust activities.

Q. And what is the commodity in which a commercial bank deals? What is it that it has to sell?

A. Well, very shortly, it has to sell credit, sometimes referred to as money.

Q. That comes from the deposits of its depositors?

A. That is true.

Q. Is there anything to prevent them——

A. Of course, a little bit of its money comes from capital and surplus originally subscribed and from annual earnings plowed back into the business.

The vast bulk of the funds, however, which it lends and invests is derived from its depositors.

Q. Is there any control or regulation as to the distribution of a bank's earning assets?

A. Yes, in this sense, that banks are required to keep cer-
[fol. 2888] tain percentages of their demand and time deposits as a reserve, the reserve being for national banks in a non-income-producing form—deposits with the Federal Reserve Bank of their district and/or cash in their vaults.

Q. What is meant by "prime rate" in the matter of charging interest rates on loans?

A. Well, the prime rate is that rate fixed generally by the larger banks in respect to loans made to larger customers with high-class or national credit ratings.

Q. Has that any relation to the requirements of the Federal Reserve Banks?

A. The prime rate?

Q. Yes.

A. The prime rate may be affected by Federal Reserve activity. The Federal Reserve, of course, has the power to influence the volume of funds in excess reserves in the possession of banks. If the banks have large excess re-

serves relative to the current demand for loans, the prime rate is likely to fall somewhat.

If, on the other hand, there is a substantial demand for loans relative to the volume of excess reserves possessed by the banks, the prime rate is likely to rise.

As the Federal Reserve can influence the volume of excess reserves it can, therefore, bring some influence upon [fol. 2889] the prime rate.

Q. And it does?

A. And it does.

Q. And what is meant by the rediscount rate in connection with that subject?

A. The rediscount rate is the rate charged by the Federal Reserve for rediscounting commercial paper or making direct loans to member banks secured by Government bonds or eligible commercial paper.

Q. Does that have any effect on prime rate?

A. Yes, it may. Generally speaking, a lowering of the rediscount rate is indicative of or is intended, on the part of Federal, to ease the monetary situation by not only making it possible for banks to borrow from them to obtain excess reserves at a cheaper rate, but there is also another general effect of a lowering of the rediscount rate by Federal.

It influences other rates, including the rate on long-term securities and as they fall the value of those securities rises, which makes it again feasible for the banks to sell those securities if they wish to acquire more excess reserves without substantial loss.

Q. And from your experience and observation does the rediscount rate set by the Federal Reserve and the reserve requirements set by the Federal Reserve have any direct [fol. 2890] effect upon the prime rate which banks charge for loans?

A. Yes.

Q. It does?

A. It does.

Q. What is the area between the lower limit, which I will consider for the moment the prime discount rate, and the usual usury rate charging interest on loans?—

A. That varies from state to state. Assuming that the prime rate is 4½ per cent, which I think it is today, in

Pennsylvania the usury rate for ordinary loans of a commercial type is 6 per cent; so they have a range in there of 1½ per cent for competitive variation in rates.

Of course, in some states the usury statute is higher than 6 per cent; it may be 7.

As far as the national law is concerned, the usury rate applicable to national banks is the usury statute of the state in which the national bank is located. In the absence of such a usury statute in that state the national usury limit is 7 per cent; but I don't know of any state that doesn't have a rate.

Q. Is the narrowness of this range one of the reasons why you say the competition among banks in the making of loans is not in the area, not to any great extent in the area of the charge for the loan, to wit, the interest rate? [fol. 2891] A. That is one of the reasons, yes.

My experience in banking goes a little further than that. I don't think the average banker thinks it is good banking to cut loan rates for the purpose of attracting business.

Q. Why not, Doctor?

A. Well, in the first place, their profits are affected by so doing. In the second place, it may stimulate similar action on the part of other banks to the detriment of the banking system as a whole.

Q. If one bank cut rates, what would be the effect?

A. Well, if they cut them sufficiently to attract a large amount of new business, they would very speedily run out of excess reserves.

Q. In other words, they would be overloaned?

A. Yes.

Q. Now, you have spoken about the restrictions or the regulations on entry into the banking field by an organization. Do I infer from what you said that that regulation is frequently exercised to maintain or even create what is sometimes called a monopoly?

A. Yes, although I don't think the purpose of it is to create a monopoly in that sense. In accordance with the 1960 annual report of the Federal Deposit Insurance [fol. 2892] Corporation, there are 7073 political communities in the United States which have today only a single bank. In a sense, that bank is monopolistic in those communities.

Q. You are speaking of unit banks now?

A. I am speaking of unit banks.

[fol. 2893] Q. And the regulations which prevent other banks from going into those respective areas, in your opinion, would that be an exercise of power to protect those banks from competition? For a benign purpose, I am talking about.

A. For a benign purpose, yes, to protect them against destructive competition which might lead to a serious weakening of their financial structure to the detriment of depositors and other customers of that bank.

Q. This is something as to which I assume you have seen some history made?

A. That is true. I have been a party to it, so to speak, when I was in the Banking Department, and it also applies to the opening of branches, and that is part of my regular activity.

Q. Tell us about regulation as to the opening of branches and the effect of that.

A. In Pennsylvania a bank meeting certain minimum capital requirements is permitted to open a branch in the political community in which the head office is located. It is permitted to open a branch in communities outside of the political community in which the head office is located, but within the county. It is also permitted to open branches in abutting counties, counties abutting to the county in which [fol. 2894] the head office is located. In respect to opening of branches within the same political community in which the head office is located, that is a discretionary matter with the Secretary of Banking and does not come before the Banking Board. In respect to the opening of branches outside of the political community in which the head office is located, whether within the same county or in abutting counties, those applications come before the Banking Board. If the application is originally declined or turned down by the Secretary of Banking, the Board has no jurisdiction. The action of the Secretary of Banking is final, subject to the possibility of court review. If the Secretary of Banking approves the application for a branch under those conditions, it is submitted to the Banking Board and passed upon by the Banking Board, who may confirm the decision of the Secretary of Banking or reverse it. The decision of

the Banking Board is binding on the Secretary of Banking.

The factors considered by the Banking Board are derived from the statutory law, which says that the applicant for opening such a branch must establish a need for that branch in the community in which it is to be located. The Board devotes most of its attention in determining to the best of [fol. 2895] its ability the need for additional banking facilities in the areas for which application for branches have been filed. The Banking Board, therefore, takes into consideration and listens to a great deal of evidence pro and con in the matter of competition. The Board again will decline a branch application if it considered that the result of that would be the undue weakening, from a competitive standpoint, of the existing institutions already in that location.

Q. The history to which you and I referred a few moments ago and which you observed or experienced, is that something that was created in part by unrestricted competition?

A. If you are referring to the era of bank failures in this country, in my opinion, some portion, at any rate, of those failures were due to the fact that there had not been sufficient restriction upon the organization of new unit banks in many sections of the country. I believe that in many sections of the country we were then somewhat overbanked, to the detriment of the health of the banking system. It has been the general trend of both law and administrative policy since that time not to bring that situation about again.

Q. Doctor, what in your opinion is the relationship [fol. 2896] between the degree of competition and the scope of the market for banking services?

A. Well, when you are talking about competition, you must of necessity relate that competition to the market or markets in which the bank carries on its activities and furnishes its services. The concept of a market is an area in which the sources of supply and demand are in operation. As far as banks are concerned, it is a rather difficult concept to accurately define and is certainly impossible to accurately draw a specific line around specific markets.

Q. Why is that?

A. Banks do business over a wide area, over an area substantially exceeding or beyond the areas in which, from

a geographic point of view, the banks are immediately located. For example, the situation in the Philadelphia area is that our banks operate in Philadelphia, and also many of them have branches in one or more of the three contiguous counties around Philadelphia. That, however, is by no means the limit of the markets in which they furnish their services. Figures which I believe have been submitted by the banks in question indicate that a substantial amount of the deposit business of both the Philadelphia [fol. 2897] National Bank and the Girard Trust originated in areas beyond the four-county area, and similar figures in respect to loans indicate that a substantial volume of loans of those institutions are made in geographic areas outside the four-county district.

Looked at from the bank's point of view, therefore, some of the market areas of these banks might be described as international. They receive deposits and perhaps make some loans abroad. They may be described as national in respect to business originating from larger corporations over areas extending throughout the eastern part of the United States and possibly substantially to the west.

There is another concept of markets, however, looked at from the consumer's point of view. From a consumer's point of view, the size of his market is somewhat dependent upon his own size, how well he is known, and so on. For example, for small business concerns known primarily locally, they may consider that their market is a strictly local one, and they may be forced by circumstances to do business with banks in a nearby geographic relationship to them. On the other hand, as businesses increase in size, the scope of their business activities, their national reputation, [fol. 2898] the alternatives they have available to them will be spread again over a very large area, possibly as large as the entire United States.

That shows that the market picture is rather complex.

Q. Well, irrespective of large or small as respects the customer or borrower, does the fact that these two banks are limited to branches in the so-called four-county area have any bearing on the borrower's choices or ability to get a loan?

A. Not necessarily. As I have just indicated, borrowers in the four-county area are not compelled to borrow in the

four-county area. Borrowers located in the periphery of the four counties can readily and no doubt many of them do cross county lines for borrowing or deposit purposes.

As far as large institutions are concerned, unfortunately, some of the largest institutions in the United States located here do most of their borrowing and depositing in New York, I regret to say. I might mention some of the big oil companies.

Q. From what you say do I understand that there is a distinction or a difference between the bank's market and the customer's market?

[fol. 2899] A. Yes, there may be. From the customer's market point of view, I am looking primarily at the number of alternatives available and open to that customer.

Q. What in your opinion is the better way to determine market, therefore, for commercial loans, if there is any good way?

A. Well, looked at from the bank standpoint, one way to determine it is to analyze the sources of their loans, where they come from and the percentages. If you are looking at it from the borrower's point of view, you would have to put yourself in the position of that borrower and see what alternative sources he could go to, to obtain such accommodation, and I may say that the scope of markets has been somewhat widened in recent years from the customer's point of view by improvements in transportation—the existence of the automobile, and factors of that type.

Q. Let me ask you specifically: If 60 per cent, say, of a bank's lending business should be drawn from this four-county area, does it necessarily follow that 60 per cent of all the loan business generated in the four counties goes to the banks in that area?

A. Oh, no.

Q. Well, discuss that, will you.

A. The bank derives 60 per cent of its business, let us [fol. 2900] say, from the four-county area, but we do not know—I don't know how we could find out—how many businesses and customers located in the four-county area go outside the four-county area to obtain their financial accommodations. There is no necessary relationship.

Q. What does determine alternative choices of the customer?

A. The thing which determines alternative choices of the customer is dependent upon the number of institutions within reach of the customer who might have sufficient knowledge of the customer's credit standing. Those number of choices that he may have, as I say, extend and may well extend far beyond the four-county area. I have no doubt whatever that business houses located along the Delaware River in Bucks County, if they don't get what they want in Bucks County, can step across the river and get it in New Jersey. The figures do not disclose the extent to which that may be done.

Q. During the course of this case Professor Smith argued against the possibility that the adequacy of local banking facilities may be a factor affecting industrial location, on the ground, I think his language was, that banking services, and particularly lending facilities, have a transportation cost that is practically zero. Would you comment [fol. 2901] on that view.

A. Well, that would seem to indicate, that transportation costs of the funds are zero, the existence of a very much wider market for those funds than some of his previous statements seem to indicate. There is another factor other than transportation costs involved, however, and that is the borrower's credit standing and knowledge. If you say no transportation costs for the cost of money, you are assuming also full information and full knowledge. Physically, of course, there is no cost. Moneys can be transferred all over the country by operations of the Federal Reserve Bank without cost. To that extent the statement is true. I think Mr. Smith was bringing out the point that existing banking facilities are not an important factor in determining the decision of a business concern in locating at a given site. He cited some studies in which banking facilities were not mentioned.

Just by luck I happened to discover a few days ago a study which Mr. Smith had not seen, no doubt, in which banking facilities were given some attention as one of the factors causing the possible selection of a site for a business concern. It was a study made by the Chamber of Commerce in 1957 of Philadelphia. I have it in my bag there. [fol. 2902] Mr. Reycraft: May we get a copy?

The Witness: "Industrial Plant Location Data, Philadelphia; 1957," by the Industrial Development Division, Department of Commerce, City of Philadelphia.

Mr. Littleton: Perhaps we better have the stenographer mark that D-28, so we know what you are referring to by consecutive number.

(Book headed "Industrial Plant Location Data, Philadelphia, 1957," was marked Exhibit D-28 for identification.)

By Mr. Littleton:

Q. I show you document D-28, which you have produced from your papers, which is headed "Industrial Plant Location Data, Philadelphia, 1957," and seems to be a publication of the Industrial Development Division of the Department of Commerce of the City of Philadelphia.

A. That is correct.

Q. Will you now proceed with what you were about to tell us, Doctor.

A. I simply said that in listing the factors considered by or which should be considered by plants in determining upon a location, they have a heading in Chapter 10 called "Other Community Facilities," among which they mention banking.

[fol. 2903] I don't wish to lay too much emphasis upon it. I am very far from saying that the banks constitute a major factor in determining industrial plant location.

Q. Doctor, may I direct your attention particularly to the Philadelphia area and ask you about competition in banking in the Philadelphia area. I would like to ask you first about competition in the area of demand deposits. Will you describe what are sometimes known as special checking accounts or personalized accounts?

A. Yes. Practically all banks furnish a service which has different names in different banks. For lack of a better name we can call it specialized accounts. They are accounts which are furnished for checking facilities only. The depositors are not required to maintain any particular balance other than a sufficient collected balance to meet checks drawn against it. Generally the banks sell to the depositors a book of checks, 10 or 20 as the case may be, and charge them customarily 10 cents per check. In addition to that

there may be a 25 or 50 cent a month maintenance charge.

Q. What is the usual type or size of customer for that service?

A. The customers who make use of this service are customarily individuals of limited or moderate income who [fol. 2904] would not ordinarily be able to maintain a large enough ordinary checking account to avoid service charges.

Q. What is the nature of competition in that field?

A. There is very little price competition in that field. I think that the banks are charging in Philadelphia substantially the same for that service. The competition takes the form primarily of advertising, personal relationships. The quality of the service is the same, I think, in all of the banks. The scope of the market is largely local.

Q. What is it? A matter of convenience?

A. Convenience is certainly the major factor.

Q. Among what institutions does competition exist in the Philadelphia area?

A. Among the commercial banks. The commercial banks are the only institutions, strictly speaking, that can furnish this service, but there is also competition with postal money orders and mutual savings bank money orders. Some people may choose to use those methods of paying bills rather than having a special checking account with the bank.

Q. What would you say the scope of the market for this type of service is?

A. The scope is primarily local, on the part of individuals [fol. 2905] living within a reasonable distance from the bank. There you run into this possibility, of course, that the finances of a family may be carried on by the wife or by the husband. If by the wife, presumably they will pick out a bank within a short distance from their home. If the finances are handled by the husband, the selection of a bank may be one which is very convenient to his place of employment.

Q. Is there any of this done by mail?

A. There may be. Banks offer facilities for deposit by mail, yes.

Q. Now, coming right down to this case, what in your opinion would be the effect of the merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank on this particular type of service, if any?

A. I think the effect of the merger will be very slight. There will be, of course, a reduction of one bank in the City of Philadelphia.

Q. In your opinion, is that adequate competition?

A. In my opinion, adequate competition remains.

Q. Any monopoly?

A. No.

Q. How about the suburban areas?

A. As far as the suburban areas are concerned, I think [fol. 2906] the effect on competition will be even less, because most of the branches, practically all of the branches of the Philadelphia National Bank and the Girard Trust are at a distance apart, which would make the alternative choices of the local people the same in each particular case. It would only be the change of the name of the bank over the door.

Q. What effect, if any, would such merger have in this particular on other banks?

A. Some other banks might hope to get a little business, more than they had before, from a comparatively few of the customers of the Girard Trust and Philadelphia National who might be disgruntled by the merger. I may say that my experience in merging has been that in practically every case there are a few people, at any rate, or customers of the merged banks who don't like it. I am of the opinion that other banks in Philadelphia are rather looking forward to getting slight accession or increase of their business as a result of this merger.

Q. Would either of the constituent banks have any more power merged to increase the service charges generally for this type of service in Philadelphia than either one of them has today?

A. No. Size has no relationship, generally, with this type [fol. 2907] of business, which is done as effectively by small banks as by large. Of course, the merged bank can if it sees fit increase the prices for this service. If it does, it will simply lose business to the other banks, in my opinion.

Q. In other words, the Broad Street Trust Company will pick up some?

A. We think so.

Q. Now, if you will, please, Doctor, move to another

service, that is, the moderately sized deposits for checking convenience, non-borrowing customers, generally speaking.

A. Yes. Deposits are carried in our commercial banks by individuals, partnerships, and corporations, small partnerships and corporations of moderate size, primarily for checking convenience and for reasonable liquidity in carrying on their daily activities. They may or may not borrow. I am assuming at the moment the deposits by non-borrowing customers or customers who borrow very infrequently, such as my own account with the bank, for example.

Q. What is the type or kind of competition in this service?

A. Well, there may be a small degree of price competi-
[fol. 2908] tion in this service, because again it is in this area that we have the possibility of service charges. Of course, many of these accounts will have a sufficiently large balance relative to their activity to avoid service charges entirely, but in the field of moderate demand deposits the question of service charges may arise. Service charges in Philadelphia are not entirely uniform among all of the banks. My impression is that they do not differ very materially. They may be higher in some respects and lower in others.

From time to time the comptroller of the Broad Street Trust Company makes a survey of service charges of competing institutions in Philadelphia and makes a report on it to the Board of Directors of Broad Street Trust, as a basis for making perhaps some slight modifications in our own service charge level. I may say that in the past ten years or so the service charges have gone up somewhat in all of our banks as a result of the substantial increase in operating costs. I consider that quite justified. Banks, in general, try to remain competitive, as we sometimes say, in the service charge field.

Q. How about the customers? In your experience, is there very much shopping around by customers?

[fol. 2909] A. No. Occasionally a customer will individually object to the imposition of a service charge on his account. I don't know of any instances, no instances have ever come to my attention, at any rate, whereby customers shop around and try each of a number of banks to see in which one they are getting the lowest service charge. I think that would be surprising.

Q. What factor does influence a depositor?

A. Primarily convenience, personal relationship, other services performed by that bank. He may have a safe deposit box there. He may be a beneficiary of a trust estate.

Q. How about competition in this area from other institutions, non-bank institutions?

A. Well, again we are talking about demand deposits subject to check and there are no other institutions, as such, which receive demand deposits subject to check.

But just as in the case previously mentioned, occasionally there are other facilities for making payments by something analogous to checks, namely, postal money orders and savings-bank money orders.

Q. And I assume competition from other commercial banks?

A. Oh, yes; competition among commercial banks. I thought you meant competition with agencies other than commercial banks.

[fol. 2910] Q. I did.

What do you consider the scope or area of the market for this type of competition?

A. Well, again, very largely local for the smaller depositor, but facilities of deposits by mail enlarge the scope somewhat; and also the transportation facilities (automobiles and highways) enlarge the scope somewhat for this type of business.

But referring to these moderate-sized deposits, I would say the market was primarily a local market.

Q. Now addressing yourself to this particular proposed merger, what, in your opinion, will be the effect of this merger, if any, on this area of medium-sized, non-borrowing depositors?

A. I think the effect will be negligible again.

Q. Why is that?

A. The deposits are maintained in banks of all different sizes. Specifically, in Philadelphia, there will be a reduction of one bank within the City of Philadelphia. There will be remaining seventeen other banks if you include the branch of the Camden National available to depositors in this category.

[fol. 2911] Similarly, the effect will be as negligible, in my opinion, in the surrounding four-county area.

Q. Would the increase in size permit the merged bank to exercise any controls over depositors or over other banks?

A. No. In this field, if they step out of line in too high service charges or other impositions on depositors, the only effect will be a loss of business to other banks, in my opinion.

Q. When you spoke about convenience as being one of the things which influenced depositors to select a particular bank, did you mean convenience of geographical location or some other type of convenience?

A. It may be of several types. Convenience of geographical location is, of course, one.

Another is doing all your business under one roof, that is to say, the convenience of utilizing the bank for other services, as well as that particular one. The customer may be a customer of a bank in other respects. It is convenient to carry on all of your banking activities under one roof, so it is widely alleged and widely used in advertising, as you know.

Q. Doctor, will you address yourself to medium-sized and large demand deposits for the moment and tell me what, in your experience, is the type of customer——

[fol. 2912] A. Of course, the larger demand deposits, coming primarily from wealthy individuals, partnerships, business partnerships, corporations, coming from municipalities, states, federal agencies, state agencies.

Q. Are these usually just for checking convenience or for other purposes besides checking?

A. They are frequently for purposes other than mere checking convenience. They are frequently maintained as a basis for other services performed by the banks and they are maintained as compensating balances for loans.

They are, in a sense, many of them, thus related, marketwise and other, to loans.

Q. What services——

A. Many of them are not. I mean, large deposits are maintained——

Q. What kind of services did you mean when you suggested that these are maintained in some instances for other services rendered?

A. All sorts of services—credit advice, the handling of

security transactions, check clearing and collection, the transfer of substantial funds from one area of the country to another are among the services that banks render to their customers.

Q. Of what does competition, if any, consist in this field? [fol. 2913] A. Very largely the quality of the services rendered and these deposits being related to loans they are, therefore, to some extent related to the legal loan limits imposed upon banks in relation to their capital and surplus.

Q. Is there any price competition?

A. Probably very little price competition in this. Being demand deposits, no interest can be paid upon them and the size of these deposits generally precludes the likelihood of specific service charges against them.

Q. Now, aside from the competition with the other commercial banks in this area, is there competition from other institutions that I might call non-bank institutions?

A. It depends on the scope of the word "institution."

What really happens is this: There are no other incorporated or banking institutions that can receive demand deposits, but again excess demand deposits on the part of these depositors will be frequently withdrawn from banks where interest rates are favorable and invested in short-term Government obligations, short-term municipal, tax-free obligations, open-market paper, bankers' acceptances, repurchase agreements, et cetera.

There is that type of competition.

Q. What would you say the scope of the market here in this field is?

[fol. 2914] A. Regional, national. As the depositors are bigger in size they may (and many of them do) deal with banks in large centers, geographically far removed from their head offices, for example.

Q. Do you consider the competition from alternative sources of investment substantial in this area?

A. It has been at various times.

Q. It depends on what the interest rate is on the United States bills?

A. In Broad Street we got quite a jolt in this field when the "golden fives" came out.

Q. Corporate treasurers removed their balances; is that it?

A. That is correct.

Q. Or drew them down?

A. They didn't remove them. They drew them down.

They invested excess amounts in the four-year nine-month 5-per-cent United States notes.

Q. That is real competition, is it not?

A. In that sense, yes.

Q. Now addressing yourself to this particular merger, what, in your opinion, will be the effect of this merger, if consummated, upon this field of deposit activity or services?

A. Well, for very large deposits, the size of the bank is a factor of significance and I am of the opinion that if [fol. 2915] the merger is approved and goes through the resulting bank will be in a better competitive position in respect to the large banks in other financial centers, such as New York.

So far as its effect on local banks, I consider it will be negligible.

Q. Do I understand from that that you considered that there are numerous alternative choices open to depositors in the city.

A. Exactly so. As a matter of fact, for big depositors, the alternative choices are the big banks all over the United States.

Q. Doctor, will you address yourself for a moment to United States Government deposits?

A. The Treasurer of the United States deposits demand funds with most of the banks in the United States. I am under the impression that the volume of those deposits will be related to the bank's size, the larger banks receiving larger Treasury deposits; the smaller banks, a smaller volume.

Q. Is there any important competition there among banks for those funds?

A. No. I am of the opinion that there is no aspect of competition involved in the receipt of United States Government deposits.

Q. Would this merger, if it becomes effective, have any [fol. 2916] effect on that situation?

A. It may have a slight effect in this sense, that I believe that an increase in the capital and surplus involved will give to this bank a somewhat greater underwriting poten-

tial in the purchase of new issues of the United States Treasury.

Q. How about state——

A. I don't think the other banks will be affected in any way.

Q. This is in the national market?

A. In respect to United States governments?

Q. Yes.

A. The United States Treasury deposits all over the United States.

Q. All over the United States?

A. In that sense, it is a national market.

Q. Would the merger have any effect locally?

A. In my opinion, no.

[fol. 2917] Q. Now will you address yourself to state and municipal demand deposits?

A. Well, banks receive, of course, demand deposits from the State of Pennsylvania, from municipalities, cities, townships, boroughs, school districts.

Q. What is the competition here? What is the kind of competition here?

A. The kind of competition there, again there is no price competition. These are demand deposits and no interest is paid upon them. Normally no service charges will be imposed upon accounts of this character.

The competition is largely in respect to the furnishing of the services to municipalities in question.

Banks quite frequently serve as treasurer of small municipalities, as fiscal agent in respect to the bond issues of the municipalities, the banks lend to municipalities and bid on municipal bond issues, and services rendered by a bank to a municipality in one or the other of those fields will frequently result in obtaining the bulk of the municipality's demand-deposits account.

So the banks compete in that sense, in the offering of services to municipalities.

Q. How about competition from any non-bank sources or institutions in this area?

[fol. 2918] A. Well, here again the municipalities in question may and do shift what they might consider excess demand balances with the banks into the types of short-term investment that I have previously mentioned—short-

term governments, bank acceptances, open-market paper, et cetera.

Q. What is the scope of the market here, Doctor?

A. Well, the local banks here deal with practically all the municipalities in the four-county area and with some municipalities beyond it.

I should say it was a regional market. It might conceivably, in some cases, be national. I don't know how far afield the municipalities would be likely to go.

There might be legislation there limiting deposits to within their own state. I am not sure, but I think there is in some states.

Q. Addressing yourself to this particular merger, what will be the effect of this merger, if consummated, upon this particular activity or service?

A. I think the effect will be negligible. I take it that the Girard and Philadelphia National will retain the deposits they have.

I can see no way in which the other banks seeking and obtaining such deposits will be affected, the merged bank [fol. 2919] being unable to control price or any other aspect of this type of business.

Q. What do you mean by a correspondent balance, Doctor?

A. Correspondent balances are balances maintained in a given bank by other banks, commercial banks.

Q. And what is the competition or the kind of competition for correspondent balances?

A. There, too, it is a competition in respect to services rendered. Here the size of the bank becomes of some significance. As a rule, banks in municipalities such as Philadelphia only of larger size are likely to receive correspondent balances from smaller and other banks located elsewhere.

The competition again is not a price competition, there being no interest paid on these balances and no service charges imposed thereon.

The city banks perform certain well-defined services for the country correspondents—advice, credit, security dealing, custody and purchase and sale of securities, monetary transfers, and so on, out-of-town check collections.

Q. How about competition from other non-bank sources or non-bank institutions for this type of depositor?

A. Going back to competitive factors, I might mention [fol. 2920] also Federal Reserve as a kind of competitor in this field, not that correspondent balances will be entrusted to Federal, but Federal is, of course, soliciting non-member banks for membership constantly; and to the extent that that solicitation results in a non-member bank joining Federal, that has the effect of reducing the non-member bank's correspondent balances with other banks because of their requirement to maintain reserves at Federal, and because a substantial number of the services previously furnished by their correspondents will now be furnished by the Federal Reserve banks.

So you might introduce Federal Reserve as a potential competitor in this field.

Q. Are there any other sources of competition?

A. Well, again, excess correspondent balances, if maintained by a bank, may be put into short-term Treasury bills if interest rates are attractive, or the other types of open-market investments which I have previously mentioned.

Q. Government obligations?

A. Government obligations, municipal obligations, open-market paper, bankers' acceptances, repurchase agreements.

Q. What is the scope of the market for this type of deposit?

A. National.

Q. And what, in your opinion, will be the effect of this [fol. 2921] merger, if consummated, on this particular type of business?

A. Well, looking first to the increase in size of the merged bank, I think that it will put them in a position to solicit and possibly obtain more correspondent balances from banks which may now be using quite large banks in other financial centers. I think it will improve the competitive position of the merged bank with large banks in other financial centers.

I do not think it will have any material effect on the other banks, larger banks in Philadelphia, that now have the correspondent balances.

Q. How about balances of foreign banks, foreign governments, and agencies? What is the kind of competition which commercial banks have in that field?

A. Well, it's somewhat limited. It's competition with banks in other large financial centers primarily.

Comparatively few of the American banks receive deposits from foreign sources, which are primarily foreign banks, foreign governments, foreign governmental agencies.

I believe that possibly in this country, by the Bank for International Settlements and the World Bank, they are listed as foreign deposits and the business is primarily [fol. 2922] concentrated in the larger banks.

There may be three or four of the Philadelphia banks with substantial foreign deposits; not more, I think.

Q. What kind of competition is there? Of what does it consist?

Is there any price competition?

A. Not on demand deposits. There is price competition when we come to time deposits of foreign banks and foreign governmental agencies.

Q. Tell us about that.

A. The competition there is with other available investments on the one hand and on the other hand with rates prevailing in foreign centers.

The foreign deposit is a rather highly competitive matter. Personal relationships are perhaps at a minimum. Foreign depositors are relatively cold-blooded and shift their funds to markets where interest rates are at higher levels without much hesitancy; so there is price competition there.

This is on time deposits, however. Again, no interest rate is paid on foreign demand balances in this country.

Q. Is there competition from any other institution, any [fol. 2923] other type of institution or any other source, for foreign time deposits?

A. Yes, of course. Again, you have Treasury obligations. Current reports of the demand liabilities of the United States to the rest of the world, which has been receiving much attention in the last three or four years because of our adverse balance position and net export of gold, indicate that there is some $16,000,000,000 or $17,000,000,000 of demand liabilities of American institutions to foreign owners, of which somewhere in the neighborhood of $6,000,000,000 is in the form of deposits in banks and the rest is primarily in the form of United States Government short-term securities.

Q. And the scope of the market for foreign balances, demand deposits?

A. International.

Q. And the same for time deposits?

A. Yes.

Q. What effect will this merger, if consummated, have on this business of foreign demand deposits?

A. Well, as size is a factor in this picture, it will improve, in my opinion, the competitive position of our local bank here relative to large banks in other financial centers.

[fol. 2924] Q. And how about locally, if any?

A. I think it will have no or a negligible effect.

Q. Is your answer the same for foreign time deposits?

A. Just the same.

Q. Will you direct your attention to multiple-line borrower depositors and tell us the type of customer for this service?

A. First of all, the customer is a large enterprise, generally operating over a wide geographic area. Our largest industries, businesses, finance companies, and so on are likely to have multiple lines, that is to say, deposits in a number of different banks scattered throughout the country.

Those deposits are maintained in part as compensating balances for loans; also maintained in large part in respect to local services rendered by the banks to those large corporations, very substantial balances being held by businesses which are non-borrowers or infrequent borrowers from the bank, in exchange for a multiple group of services which the banks render in respect to those accounts.

Q. Similar to the services that you described before?

A. Yes.

Q. And what kind of competition is there for this business

[fol. 2925] A. Well, again we are still talking about demand deposits, so price competition does not enter in the picture, no interest being paid on these balances and no service charge being imposed thereon in the normal case.

The competition is one primarily of services rendered, personal relationships, and related in some cases to lending activities.

Q. How about competition from other non-bank sources, for instances?

A. Well, again excess demand balances of the multiple

line depositors may be withdrawn for attractive investment opportunities in short-term investment obligations.

Q. What in your opinion will be the effect of this merger on this business?

A. I think the increased size of the Philadelphia bank would improve its competitive position with large banks located elsewhere.

Q. Anything locally? Any effect locally?

A. I don't think it will have any substantial effect locally. I do not believe that the mere increase of size will attract from local banks their share of multiple line deposits.

Q. Now may we turn to time and saving deposits. Will you tell us the type of customer.

[fol. 2926] A. Well, starting with savings deposits, savings deposits as defined by the Federal Reserve represent deposits of individuals for savings purposes, generally individuals of moderate income and moderate means. All of the commercial banks in Philadelphia, I believe receive savings deposits from their customers. The scope of the market is largely local, but facilities are offered to savings depositors for deposit by mail, which to some extent enlarges the potential scope of the market.

There may be in this field some price competition. On these savings accounts interest is paid, and within the four-county district the rates of interest paid currently on savings deposits range from 1 per cent at the bottom to 3 per cent, which is the maximum limit permitted by Federal Reserve and FDIC regulation and also the regulation of the Secretary of Banking in Pennsylvania.

Q. From your experience, is it your opinion that price competition is significant in this area?

A. I must confess that I am somewhat surprised in this field to discover that price competition is relatively minor, that is to say, people do not appear to readily remove their savings from one institution to another to take advantage of a somewhat higher rate of interest. We have had in [fol. 2927] Philadelphia for 50 years or more the mutual savings banks offering ½ per cent and in some instances more than ½ per cent higher interest than the commercial banks. Nevertheless, the rate of increase in savings accounts in commercial banks has kept pace with and in

many of the banks exceeded the rate of increase of the mutual banks paying 3½ per cent. It has always been, as I say, somewhat a surprise to me.

I have made some inquiries. There are four banks on the corner of Broad and Chestnut. Three of them are commercial banks all offering 3 per cent, and one is a mutual savings bank offering 3½. As far as I have been able to discover, there isn't anybody in Philadelphia who will take the trouble to walk across Broad Street to get ½ of 1 per cent more interest. If you ask me why, I will say I do not know. Habit, custom, personal relationships, convenience, doing all your banking under one roof appear to be factors superior to changes in the interest rate level.

Q. You mentioned other commercial banks maintaining savings deposit accounts and mutual savings banks. How many mutual savings banks are there in Philadelphia?

A. We have four in Philadelphia operating I believe 63 offices. They are all paying 3½ per cent. You are now [fol. 2928] talking about competition with institutions other than commercial banks. There is very extensive competition in this field. There is an enormous competitive effort to obtain the saver's dollar. I would mention the mutual savings banks, the number I have given paying 3½ per cent. We have federal and state-chartered building and savings and loan associations who are advertising for and receiving the saver's dollar in very large volume. There are some 421 such institutions in the four-county area. They are currently paying dividends ranging from 3½ to 4½ per cent. The prevailing rate in the Philadelphia district today is 4 per cent. That is to say, more associations are paying that rate of dividend than the other rates. Their savings have grown somewhat more rapidly than have the savings in commercial banks and in the mutual savings banks. They are an active and apparently reasonably successful competitor.

We have credit unions——

Q. Is that competition limited to savings and loans within the four-county area?

A. No. The competition extends to savings and loans in California. All you have to do is pick up the daily paper and you will discover that they are advertising 4½ or better [fol. 2929] rates, and you have to cut a little slip out of

the paper and sign your name on it and send a check and you have opened an account in a saving fund society in California, and some people are doing it.

Q. How about mutual saving funds? Is the competition there limited to four in Philadelphia County?

A. No. Well, that depends on what you mean. The mutual saving fund societies receive deposits from individuals outside of the four-county area.

Q. Do any mutual saving-fund societies outside the four-county area seek deposits within it?

A. My impression is that there is one in Media, I am not sure—Chester. There is practically no other competition in this local area except the four big savings banks of that nature. There are only seven mutual savings banks in the whole State of Pennsylvania.

Q. What other source of competition is there from other institutions or other sources?

A. The postal savings system, a trifle, not very significant, but a number of post offices in Philadelphia receive postal savings deposits, and a few people deposit in them. They are not a significant competitive factor. The total deposits in the postal savings system in the United States today aggregates only about a billion dollars. I could not discover [fol. 2930] what portion of that was definitely tied in with the four-county area. Those figures were not available—to me, at any rate.

We have credit unions, of which there are some hundreds in the four-county area, which receive savings from their members. According to the Credit Union Yearbook, they are paying dividend rates which range from 2½ per cent at the bottom to 5½ at the top. Again I was unable to discover the prevailing rate of dividends for the credit unions in the four-county area. They constitute another competitive factor.

Q. Will you describe briefly for the record just what a credit union is.

A. A credit union is a corporation incorporated under either state or federal law which offers its services to an integrated group of individuals who have some relationship to one another, either of geographic location, common employment chiefly, and their activities are limited to dealings with their members.

For illustration, one of the largest credit unions in Philadelphia is the Public School Teachers Credit Union, the members being public school teachers in the public school system of Philadelphia. There is another credit union in the public school system consisting of employees of the [fol. 2931] public school system other than teachers. Large corporations like the Pennsylvania Railroad and others will have a credit union open to employees of that company. There is a credit union in Harrisburg open to employees at the State Capital, on Capital Hill, and so on. These credit unions receive the savings of their members in form of the members buying stock in the credit union and the members receiving dividends as and when declared by the Board of Directors of the credit union. The credit union in turn makes loans to its members.

Q. Does it have any particular tax treatment?

A. Yes. Being a mutual institution it has certain tax benefits, as, in fact, do some of these other institutions that I have named.

Q. Such as savings and loans?

A. Such as savings and loans, yes.

Q. And mutuals?

A. And mutual savings banks, which don't pay as high a tax as commercial banks in Pennsylvania.

Q. What other areas of competition are there?

A. Well, we have, of course, the competition with the United States Savings Bond, both E and H, currently paying 3¾ per cent, if held to maturity. We have competition [fol. 2932] with mutual funds, who offer their shares at unit prices sufficiently low to appeal to the moderate saver. We have competition with life insurance annuity plans. We have competition with the installment purchase plans recently introduced by stock brokers to enable small savers to speculate in the stock market. All of those institutions or quasi institutions are today in competition with each other for the saver's dollar.

Q. And in competition with commercial banks also?

A. And in competition with commercial banks.

Q. What in your opinion will the effect of this merger be on this particular type of business?

A. I don't think it will have any effect at all except, as I say, the reduction of one bank in Philadelphia by name.

There are adequate and more than adequate alternatives open to savers in this area.

Q. Now will you address yourself to time deposits. What is the type of customer for time deposits?

A. Well, time deposits are generally made in larger dollar volume than the savings deposits. The depositors may be individuals, partnerships, corporations, municipalities, states, federal and state agencies of one kind or another. They may all and do all deposit on time with the commercial banks. There may be some price competition [fol. 2933] in the field of such time deposits, but I think it is very slight. My impression is that most of the larger banks are paying at the moment the maximum permitted rates under federal and FDIC regulation.

Q. Well, what would happen if banks in another state were permitted to pay more interest or a higher rate of interest?

A. There would probably be a shift of some of those deposits to areas of higher rate. At the present time, however, the Federal Reserve and FDIC regulations are national in scope.

Q. Is there competition from other institutions or other sources for this type of deposit?

A. Yes. Again, and perhaps more significantly than in the case of demand deposits, the depositors may and do shift time deposits to short-term investments where interest rates are favorable, and if the bill rate or rate for open-market paper or short-term tax-free municipals goes above the bank rate there is likely to be a substantial shift of time deposits into those alternative investment opportunities.

Q. Anything else? Would the other categories which you gave us, such as bankers acceptances, repurchase agreements, and so on, be competition here?

A. Well, I could go over the list of of them. I don't [fol. 2934] recall any other type of competition than those potential investments.

Q. Again, if this merger becomes effective, what in your opinion will be the effect of it on this type of business, if any?

A. Well, the increased size of the bank will again, I think, improve somewhat the competitive status of the

bank in relation to large banking institutions located elsewhere. So far as the local picture is concerned, I think the effect will be negligible.

Q. In other words, there are enough alternative choices, in your opinion?

A. Yes.

Q. Returning to loans, Dr. Harris, which we talked first about—consumer loans, installment loans, personal loans—tell us about the type of customer for this type of loan.

A. Most banks, in their Consumer Loan Department, make what are frequently called personal loans for emergency purposes, largely and primarily unsecured, although they may in some cases ask for a co-maker or co-endorser. These loans are customarily made on the installment repayment plan. They are made directly to individuals. They are made at rates of interest concerning which there is [fol. 2935] special legislation in Pennsylvania, the banks being permitted to charge on loans of this kind $6 per hundred per year on a discount basis, which results in a rate just slightly under 1 per cent per month. In addition to that, a number of the banks have recently instituted an expansion of the concept of personal lending by revolving credit plans. It started some years ago by a bank in Boston and has since spread to other centers, taken up in Philadelphia two or three years ago, whereby individuals receive a type of revolving credit, being authorized to draw checks up to a stated amount when doing so. When they have done so, interest is charged at the rate of, in Philadelphia today, 1 per cent per month on unpaid balances, and they are required to repay that on the installment basis in accordance with the initial provision at the time of application as to how much per month they could afford to pay. I believe four or five of the Philadelphia banks have introduced such plans for the expansion of their personal loan activities. I believe there is no price competition in it, all of the banks charging the same for that type of service. It is a highly competitive aspect among the commercial banks themselves, and not only that, but there are non-commercial bank competitive institutions operating in this field.

[fol. 2936] Q. Well, among the commercial banks themselves what would you say would be the primary factor?

A. Convenience, personal relationships, advertising,

receiving other services from the bank, having a safe deposit box there, and so on and so forth, not price.

Q. Not in price. And competition from other institutions you were about to speak of.

A. Yes, it is considerable. In the field of such personal lending we have in Pennsylvania the small loan licensees, some of which are very large companies operating nationally—Household Finance, Beneficial, and so on. There are hundreds of such companies and branches within the four-county area. They are primarily under the Pennsylvania law and charge rates above the customary usury rates for loans up to $600. T e rates which they charge are already in evidence. Dr. Smith correctly stated them.

Q. Any other institutions?

A. Yes, consumer discount companies in Pennsylvania. They may be somewhat peculiar to Pennsylvania. I don't know how extensive they are elsewhere. They were authorized in Pennsylvania for the purpose of taking care of personal borrowers who wished to go above the $600 level furnished by the small loan licensees. They are permitted [fol. 2937] to lend up to $2000 under present state legislation and charge interest at 6 per cent per annum on a discount basis, which makes it the same as the permissible interest charged by banks on loans of that type.

There are 97 such consumer discount companies operating in the four-county area. I consider that they are a little more competitive with banks than the small loan licensees. Their rates are the same as banks, and they go up to larger levels. They can lend up to $2000. A substantial number of the small loan licensees, in order to cover that field, have organized affiliated corporations as consumer discount companies doing business at the same location as the small loan licensees. For example, you can walk down Chestnut Street and see the Beneficial and the Beneficial Consumer Discount Company on the same window, two organizations.

Q. Are there any other institutions which compete in this?

A. In this particular field? Unsecured lending? I think they are the main ones.

Q. How about these credit unions you were speaking about before?

A. Oh, yes, credit unions do it. They may be secured or unsecured. Thank you for reminding me.

[fol. 2938] Q. What is the scope of the market for this type of business?

A. The scope of the market is very largely local. Most of these individual customers deal with institutions not too far removed from their places of either work or residence.

Q. What would the effect of this merger be on this?

A. I believe that after the merger there will still be more than ample sources available to potential borrowers in this field.

Q. Do I understand that this is no significant factor?

A. No significant factor.

Q. Can we direct our attention to installment loans and consider them, both direct and indirect? What type of customer applies for these?

A. The consumer loans on the installment basis primarily relate to the financing of consumers in the purchase of hard consumer goods and paying for them over an extended period of time, and the lending institution taking security in the form of a lien on the commodity purchased. The financing of automobiles represents the great bulk of this business, but it also includes the financing of television sets, washers, dryers, refrigerators, etc., etc. The banks go into this business in at least two ways. They make direct [fol. 2939] loans to borrowers who wish to finance their purchase of an automobile or other commodity by making use of the facilities of the bank. Again the bank can charge a rate of $6 per hundred per annum discount under the Pennsylvania law for loans up to $3500. Also the banks do a good deal of indirect business in this field by buying or rediscounting dealer paper where the original obligation of the buyer of the commodity is to the dealer, who then sells or discounts that paper to the bank.

In respect to the direct applications, the market is largely local, the customers dealing with, as a rule, nearby institutions. When we come to the indirect portion of the business, dealer contact and handling of dealer paper, the scope of the market is very much greater and may well be regional, extending substantially beyond the four-county area.

Q. Does it make any difference whether that indirect is with or without recourse?

A. Banks do both businesses. Frequently it is on a full recourse basis, sometimes on a non-recourse basis, but in the latter case generally with a requirement on the part of the dealer to maintain adequate reserves with the bank against which delinquent loans can be charged.

[fol. 2940] Q. What kind of competition do commercial banks have in this area?

A. They not only compete with each other, but they have very extensive competition from other lenders. Here we come into the field of the sales finance companies, of which there are some very large national companies, such as General Motors Acceptance Corporation, Commercial Credit, and so on, as well as substantially large companies doing business on a regional basis and on down to relatively small finance companies in our various financial centers.

There are some hundred finance companies operating in the four-county area who compete actively with banks financing automobiles and other equipment in substantially the same way that banks do, also on a direct and largely on an indirect basis here. Most of their contact is with dealers. In addition to that, the credit unions again do some volume of business. The Federal and state savings and loan associations are authorized and do to a limited extent lend money to home owners for home installations. That is the limit to which they can go, and consumer discount companies and even small loan licensees do a limited and small volume of this type of business, the major com-

[fol. 2941] petitor being the sales finance companies.

Q. Of what does the competition consist? What are the factors of competition here? Is it price?

A. No, I don't think there is very much price difference here, not as much as in the personal loan with the personal loan licensees. The sales finance companies are charging rates which are competitive, rather strictly competitive, with bank rates in this field. Competition is partly convenience, partly personal relationships, advertising, and again, so far as the banks are concerned, other services rendered by the banks which will induce their customers perhaps to finance their car through that bank.

Q. And if this merger is consummated, what in your opinion will be the effect of that merger, if any, on this business?

A. I don't think it will have any effect on direct lending. Again there are more than adequate alternative choices open to borrowers in this area. The increased size of the bank may enable it to compete a little more effectively on those aspects of dealer relationships which may be of national or wide regional scope. I think the effect on the other banks will be negligible.

[fol. 2942] Q. Now will you address yourself to commercial loans. Let us talk about smaller commercial loans. First of all, do you have any definition or concept of a small commercial loan?

A. The breakdown is quite arbitrary. A breakdown was made in a number of different categories by the Federal Government or the Federal Reserve in their report on small loan financing. I don't think there is much significance to the figures actually used in determining what is or is not a small loan. I consider it somewhat arbitrary. I would put in the category of small loans, let us say, as far as commercial banks are concerned, loans in the category of up to say $50 thousand, but I will admit that that is arbitrary.

Q. What type of customers would they be?

A. They may be individuals, partnerships, or corporations. So far as partnerships or corporations are concerned, they would fall into the category of relatively small business.

Q. How about the scope of the market for this?

A. The scope of the market is primarily local, but also to some degree regional. Looking at it from the bank's point of view, a small proportion of loans in that category may come from outside the four-county area, and I think [fol. 2943] it probably would. Some specific figures along that line have been submitted by the banks. I don't carry those figures in my memory. I would say it was a local and a regional market to a limited degree.

Q. What kind of competition exists for this type of business?

A. Again I do not think that there is much price competition here. There may be differences in the weight given by loan officers to the credit standing of borrowers. The competition will largely be one of personal relationship, personal solicitation, advertising, but rarely, I think, shav-

ing interest rates for the purpose of attracting business. I think that would be somewhat unusual.

Q. And the competition here, in addition to coming from the other commercial banks, would come from what institution?

A. Well, of course, depending upon the type of loans. If these loans happened to be secured by accounts receivable, for example, you would find competition with the sales finance companies, who lend to businesses of moderate size. Factors will buy accounts of businesses of moderate size in competition with commercial banks. I think that would be the main element. Some people might put in Small Business Administration, but I don't know whether [fol. 2944] it would be fair to say that they compete because the banks have to refuse the loans initially before the SBA can enter the picture; but certainly Factors as well as finance companies would be competition in certain types of lending of this character.

Q. Is that part of the regulation of the Small Business Administration?

A. Yes.

Q. Is there any number of banks that have to refuse before a borrower is eligible?

A. My recollection is that it is three, but I may be in error on that point. I think that it is three.

Q. What in your opinion would be the effect of this merger, if it is consummated, on this type of business?

A. There would, of course, be one less bank in the City of Philadelphia. My opinion is that the remaining 17 banks would constitute adequate alternatives within the city.

The same thing is true to a greater extent in the suburbs, and also I recognize the fact that borrowers in Philadelphia are not necessarily limited to Philadelphia. They may borrow in Camden and other areas. I don't consider that there will be any substantial reduction in competition from the customer's point of view. The question has been raised [fol. 2945] as to whether the increased size of the merged bank would lead it to paying greater attention to large customers and hence reduce its lending to the smaller businessman. I am of the opinion that the increase in the size of the bank, resulting, as it will, in increased economies of operation, diversification, and the attraction of larger

deposits, will make it feasible and possible for the merged bank to enlarge the scope of its lending to big borrowers without reducing the scope of its lending to the small business borrower.

Q. Would it have any advantageous or beneficent effect on the ability to lend to small borrowers?

A. It might very well have. One effect of size is the ability to acquire a personnel and build up an organization which is skillful in meeting the advisory needs of small business. The increased size of the bank, and hence its increased financial strength, will enable it, in certain cases, to take greater risks than many small banks feel able to take in lending in the small-business field.

A larger proportion of loans to new businesses, which are, from the very nature of the case, somewhat more risky than loans to businesses that had had established standing and past record of successful management and earnings, can well be handled more effectively by a large than by a [fol. 2946] very small bank; so I think that there are some definite benefits that may accrue to the small-business borrower as a result of this merger.

Q. Doctor, will you direct your attention now to larger commercial loans and lines of credit?

What is the type of customer for this type of loan?

A. The larger, of course, manufacturing businesses and financial institutions in the country. Here the matter is quite clear. We are getting into a range now where legal limitations on the size of the loan may enter the picture.

As I have mentioned before, national banks and most of the state banks, certain state banks in Pennsylvania where the act in Pennsylvania is the same as the national, are limited in the size of the loan they may make to one borrower to 10 per cent of their capital and surplus.

One obvious effect of this merger, plus the announced intention of the banks making a transfer from undivided profits to capital; in addition to combining the capital of the two institutions, will increase their lending limit roughly to $15,000,000, as against the $8,000,000 now prevailing for the Philadelphia National Bank, and I believe it's $6,000,000 for the Girard Trust, or in that neighborhood. That [fol. 2947] will enable them to make loans of larger size to larger institutions, hitherto being limited, with some

exceptions, to the $8,000,000 to $6,000,000 levels previously existing prior to the merger.

This will, therefore, improve the competitive position of the merged bank in respect to large institutions now in Philadelphia, which are largely likely to finance a part of their needs elsewhere, as well as to large institutions located outside of Philadelphia, which may under these circumstances find themselves able to get accommodations in Philadelphia which they were unable previously to obtain.

Q. Would there be any other effects of the merger, particularly locally, on this type of borrowing?

A. I don't think it will have any adverse effect on the remaining banks in the City of Philadelphia. It will enable this bank to perform more effective services for a larger variety of large, as well as small, customers than they were previously able to do as separate institutions.

Q. How about a borrower's alternative choices in Philadelphia?

A. Well, the borrower's alternative choices in Philadelphia—we are talking now about the big borrower—are affected as follows:

[fol. 2948] First of all, I don't know whether I can give this by memory or not. There are a certain number of banks in Philadelphia which can lend up to certain stated amounts——

Q. Excuse me, but would you want to look at D-16?

A. The effects would be that one additional bank in the city now (the merged bank) would be able to lend up to $15,000,000, as contrasted with no such bank existing in Philadelphia before.

The number of banks that can make loans legally up to $8,000,000 would be one in Philadelphia and one all the way through. No change in that category would result from the merger, there being one now and there would be one after the merger.

Up to $7,000,000, two banks in Philadelphia County and two banks (the same two) in the four-county area.

Up to $5,000,000, three banks in Philadelphia County and three banks right straight through.

Up to $2,500,000, four in Philadelphia County and five in the ten-county area. We have one large bank; I forget which one at the moment.

Up to $1,000,000, seven banks in Philadelphia County, seven in the four-county area, and eleven in the ten-county area.

The effect of the merger in most of these categories would [fol. 2949] be the reduction of one bank as we get down into the lower-level categories and the addition of one bank at the top.

Q. As to the first part of your sentence, in your opinion, would that be a lessening of competition which would be disadvantageous to a borrower?

A. I think that the borrowers still have adequate alternatives. When you talk about borrowers in this top class, their alternatives are almost nation-wide, big borrowers.

I am inclined to think that competition may be even made somewhat keener on the part of other banks now seeking to maintain their position in the fact of this merged institution.

Q. Now, what is the nature of the kind of competition for this type of loan? Is it price competition?

A. No, there would be very little price competition in this field. It would largely be again services rendered and personal relationships.

Q. How about competition with other institutions? Is there much competition with other institutions for this type of business?

A. There may be in this field. There may be competition with life-insurance companies on term loans. In fact, pension trusts are entering this field of term-lending in large [fol. 2950] dollar volume; they would represent competition with the commercial banks.

Q. How about finance companies?

A. Yes. On certain of the larger loans secured by accounts receivable, let's say, the big finance companies would enter this picture.

Q. Doctor, in connection with this it has been suggested two or three times during the course of this trial that this question of lending limit doesn't mean anything because if you have an over-line loan all you have to do is take it to some other bank and get the additional loan over the bank's lending limit.

Would you comment on that and tell us about participations and how they work?

A. Yes. There are various types of participations.

A common type is, in a sense, a participation downward. One of the services rendered by city banks to their country correspondents is occasionally the permission to the country correspondents to share on a participating basis with certain of the loans made by the large city bank.

It is by no means unusual for a country correspondent maintaining a substantial balance with the large city bank to suggest that the local demands for loans are not as great as they would like and could they add to their loan portfolio [fol. 2951] by the cooperation of their city correspondent; and under those circumstances the loans are occasionally, in part, shared. The business concern knows nothing about this and the borrowing, as far as the business customer is concerned, is made entirely with the large city bank.

The compensation for that to the large city bank is in the form of the deposit maintained by the country correspondent.

Then there are participations upward, again largely originating in the country correspondent's point of view. It is possible (and quite frequently does happen) that in a community where the local bank does not have sufficient capital to enable it to meet the needs of a reasonably large local business firm they may, nevertheless, ask their city correspondent to participate in that loan. Again, the city correspondent will, quite frequently, do that in consideration of a substantial balance maintained by the country bank with the correspondent.

Then there are participations by very large concerns who do business with quite a number of banks in different parts of the country, and the large concern itself arranges the participating arrangement and picks out the particular banks which are to share in it.

[fol. 2952] I may say that participations upward at the request of large city banks would be a rather rare and extremely difficult procedure. While it is perfectly true that a small bank in a small town in Pennsylvania could take care of an over-line by asking participation from a Philadelphia bank, it would be very doubtful as to whether a large Philadelphia bank could as readily obtain an over-line participation from, let us say, its New York correspondent. The Philadelphia banks, all being members of

Fed and having a substantial amount of their funds tied up in that way, keep correspondent balances in New York or perhaps elsewhere in relationship to certain services a correspondent is expected to render in the field of security operations, out-of-town check collections, and so on; but normally not in an amount sufficient to justify that correspondent taking a share of the loan at the request of the Philadelphia bank.

The participations upward, according to my observation, are largely, if not entirely, confined to participations negotiated by smaller banks with their big-city correspondents and not participations of big-city banks with other city correspondents.

Now, of course, then we have still another class of large finance companies where they may have lines with thirty, [fol. 2953] forty, or fifty banks located all over the country, primarily for rotational pay-off purposes. They determine (not the banks) the banks involved and the size of the line.

Q. Suppose a bank had a lending limit of $8,000,000 and were asked for a $12,000,000 loan and went to its New York correspondent which you have described, what would be the requirement of the New York correspondent?

A. The New York correspondent undoubtedly would either require the bank in question to increase substantially its deposit in New York or would insist upon a fair deposit account with the borrower.

Q. In your opinion is that practicable or feasible?

A. Well, I think it is somewhat impractical, and certainly not desirable from the Philadelphia bank's point of view. It would, among other things, perhaps introduce this New York bank to this particular customer, let him get his foot in the door, and perhaps take away the entire business at a later date. If makes that possibility.

I consider that the average banker would greatly prefer handling the entire thing himself than participating with another bank.

Q. Doctor, will you direct your attention to loans on the security of real estate as such loans are made by commer- [fol. 2954] cial banks. What type of customer usually is in the market for this type of loan?

A. The customers may be individuals who wish to obtain mortgage loans for the acquisition of homes. The customers

may be business concerns who wish to acquire real estate for business purposes. The customers may be building operators who wish funds for building operations.

Q. What would you say the scope of the market for this type of loan is?

A. Well, so far as individual applications of home owners for the financing of home purchases, the scope of the market is likely to be local if they apply directly to the banks. On the other hand, it is a well-known fact that many loans of that kind are arranged by developers, and where that is the case, the scope of the market may be somewhat enlarged.

Q. What is the nature of competition? That is, of what does competition consist in loans on real estate mortgages?

A. Well, the competition there is affected to some extent by legal regulations imposed upon banks in regard to the type and kind of mortgages which they are permitted to take relative to the type and kind of mortgages which might be acceptable to other institutions, lending institu- [fol. 2955] tions other than banks. I don't think that there is very much price competition. The maximum or the actual loan rates for a substantial percentage of such mortgage loans which are insured by the Federal Housing Administration or the Veterans Administration, as the case may be, are fixed by those agencies rather than by the banks.

Q. And the proportion of the value of the security——

A. Yes. If you would like me to outline the nature of those regulations, I would be very happy to do so. National banks—and I might say that the state law parallels the national law in Pennsylvania almost exactly word for word—the national banks can make mortgages only under the following circumstances and conditions:

First, they must obtain a first lien; secondly, the property must be improved; thirdly, the size of the mortgage can not exceed 10 per cent of the capital and surplus of the bank; fourthly, the percentage that they can borrow relative to the appraised value of the property varies with the term of the mortgage and the mode of amortization repayment. On a straight mortgage loan with the full principal payable at maturity, they can not lend over 50 per cent of the appraised value of the property. If the mortgage is amortized [fol. 2956] in such a way that 40 per cent, at least 40 per

cent of the mortgage is repaid during the term, with a balloon payment at the end, they can go up to 66⅔ per cent. If the mortgage is fully amortized over a period of not more than 20 years, they may lend up to 75 per cent of the value of the property—talking about the national law as it currently exists.

There are also aggregate limitations imposed upon the banks. They may not hold in the aggregate uninsured mortgages in excess of the amount of their capital and surplus or 50 per cent of their time deposits, whichever is greater. I believe that that is the provision.

I had occasion to look into the situation for the State of Pennsylvania, and I took the mortgage loans of national banks in the entire state and contrasted that with their time deposits and their capital structure in the aggregate again and found as of 1959 that they were not far below their aggregate limitations. That was the banks as a whole. It led me to the conclusion that quite a number of individual banks were probably up to their aggregate limitations at the moment and could not under those circumstances take more mortgage loans even if they desired them. My general impression is that national banks succeed in getting as [fol. 2957] many mortgage loans as they want.

Q. In addition to commercial banks what institutions compete in this field?

A. The most active competitors in the field of residential mortgages are unquestionably the federal and state chartered savings and loan associations, who do a very large business in the field. In the matter of both large and small mortgages one of the big competitors would be life insurance companies, who do a very large mortgage loan business. Another very large competitor in this part of the state would be the mutual savings banks, some 40 per cent of their assets being today in mortgage form. They are perhaps the most important. Pension trusts, pension funds, have also gone of recent years, recently, into mortgage lending activities.

As far as agricultural mortgages are concerned, with which I take it the four-county banks are not too intensively interested, they have as a competitor the federal land banks.

Q. Are there any other sources of competition?

A. Individuals, of course. In fact, individuals, I think, hold more mortgages than any single one of the institutional agencies in question.

[fol. 2958] Q. How about pension funds?

A. I think I mentioned pension funds.

Q. You mentioned mutual savings banks and savings and loan associations. Are they the mutual savings banks and savings and loan associations which are geographically located in the Philadelphia area?

A. They are the ones I was referring to, but, of course, the big mutuals buy mortgages, and our bank sold, I think, a million dollars worth of mortgages to the Bowery. I think so.

Q. How are those serviced?

A. They are serviced by the selling bank, who receives a commission for servicing the mortgage from the final holder.

Q. Are there any companies in Philadelphia that do a mortgage service?

A. Oh, yes, mortgage companies do a very extensive mortgage servicing business. They really are intermediaries bringing together the applicant for mortgage funds and the ultimate lender.

Q. And are they mostly for out-of-town lending institutions?

A. Very largely, but also in town, too, both in- and out-[fol. 2959] of-town institutions.

Now, a great many of our apartment houses, and so on, that have been built in Philadelphia in the last ten years have had the financing arranged by our local mortgage companies. They arranged the mortgage, and the ultimate mortgage will be placed to a very large extent with life insurance companies operating anywhere in the United States or Canada, for that matter, and quite frequently large savings banks located elsewhere who buy mortgages as well as receive applications directly to lend.

Q. Are all these alternative sources of mortgage money, if I may use the expression, regulated and limited to the same extent that the commercial banks are in making mortgage loans?

A. There are special regulations and limitations imposed upon certain of these institutions, yes. The savings and

loan associations have legal requirements that must be met. In the federal field, except for 15 per cent of their share accounts, they are limited to residential properties of one to four families of moderate priced scale. They have wider lending facilities open to them in respect to either 15 per cent or 20 per cent of their share accounts.

Q. How about insurance companies?

[fol. 2960] A. Insurance companies are regulated by state law. I know of no aggregate limitation imposed upon insurance companies, and I do not know of any 10 per cent of capital or surplus limitation, but some state laws relating to insurance companies do place a limit on the percentage of the value of the property that they may lend, and it will vary from state to state.

Q. How about pension funds? Is there any kind of regulation on them in so far as mortgage investments?

A. I am not familiar with any.

Q. I assume there is no regulation of individuals when they lend money?

A. There is no regulation on individuals.

Q. Doctor, assuming this merger is consummated, what in your opinion will be the effect of that, if any, on the making of mortgage loans?

[fol. 2961] A. Well, when you take into consideration that, as far as home owners in the area are concerned, they have 421 savings and loan associations, four mutual savings banks, 100 life insurance companies, as well as—what is it—17 remaining banks, I would consider that the source of supply for mortgages of that group would be very more than adequately taken care of in the Philadelphia four-county district.

So far as the rather exceptional case of individuals needing mortgages on the level of 8, 10, 12, or 15 million dollars, of course, this bank does add a bank to the community which is capable of making an individual mortage loan higher than any other bank currently located in the community could make. I do not believe that it will have any adverse effect on the real estate lending business of other commercial banks in this area.

Q. Doctor, in answer to my questions you have given us the effect of the merger, in your opinion, on competition in each type of service and type of customer. In your opin-

ion, is that the proper way in which to give an opinion as to the effect of this merger?

A. I think it is. I would not know how to go about expressing an opinion of competitive status which attempted to group all of the varying activities of the bank [fol. 2962] into one lump, because the degree of competition, the nature and scope of it, of course, is dependent on the nature and character of the service rendered, type of loan made, etc.

Mr. Littleton: Will you mark this, please, Mr. Reporter.

(Document headed "Ratio of Loans to Assets for Insured Commercial Banks in the U.S., June 10, 1959," was marked Exhibit D-29 for identification.)

Q. Doctor, I show you this paper which the stenographer has marked D-29 for the purposes of identification and ask you if you will tell me what it is. First, was it prepared by you or under your direction?

A. It was.

Q. What is it?

A. It is the ratio of loans to assets for insured commercial banks in the United States as of June 10, 1959, the banks being grouped by deposit size. The material was obtained from the annual report of the Federal Deposit Insurance Corporation for December 31, 1959, the table appearing therein being Table 21 on Pages 54 to 56. [fol. 2963] It indicates, briefly, that as banks increase in size they not only are able to lend more money, of course, but the percentage of their total assets that they can and do lend tends regularly to increase with the increasing size of the bank. I draw the conclusion from that that with the increased size of the proposed merged bank they may be able to expand not only larger loans but also smaller loans. That is to say, the expansion of larger loans will not necessarily reduce in any way their capacity to make smaller loans to local small business enterprises.

Q. Now, Doctor, you were in the court room, were you not, while Professor Smith was testifying for the Department of Justice?

A. I was.

Q. And you heard him expound his formula and you have

seen his formula, which is marked in this case for identification and has been offered as G-60?

A. The answer is yes, I have seen it.

Q. Will you give us your opinion as to the thrust of that formula and as to its general validity?

A. I think the substitution in the formula of figures will be subject to criticism. For example, Dr. Smith assumed [fol. 2964] that the deposits arising out of the opening of credit lines would be 20 per cent, whereas a study of the credit lines of the banks in question indicates a very much larger percentage of deposits to outstanding lines than that.

He made the further assumption that 50 per cent, I think 51.8 or something he started with, and then reduced it to 50 for simplicity of numbers, concerning which I have no criticism—that 50 per cent of the outstanding credit lines would be in use, which again I think is contradicted by figure facts showing the average ratio of lines in use of the banks in question for the year 1960 showing a lower percentage figure.

He made the further assumption that the proceeds of all of such loans would leave the Philadelphia district, which seems to me to be open to question.

He made the further assumption that with the deposits arising out of the opening of the lines, the banks would make local loans, and assumed that 97 per cent of those proceeds of those local loans would leave the Philadelphia area, which I think is very highly open to question.

I have those specific comments about the formula itself, that is to say, the application of figure facts in place of the [fol. 2965] alphabetical designations in the formula.

It would seem to me that if the proceeds of the loans made out of the city all left the city and 97 per cent of the proceeds of the local loans left the city, that the moral that you might draw from that is that it is a bad thing for banks to lend at all.

It seems to me that it is equivalent to putting a protective tariff around the local areas and saying, "Keep your money at home," which I think is contrary to the philosophy of our national economic system and national welfare.

I think this factor is overlooked, that even though some of the proceeds of loans made in Philadelphia undoubtedly

leave the community, that similar loans are being made in all the other cities—New York, Chicago, and everywhere else—to individuals who will use some portion of that money to pay obligations incurred in Philadelphia; in other words, that there are inflowing funds from similar activities elsewhere corresponding to any theoretic outflow that may exist from Philadelphia expansion; and I think it leads to a form of localism of "Keep the money at home," which is a little startling and disconcerting to me and contrary, in my opinion, to economic welfare in the United States as a [fol. 2966] whole.

Q. I think Prof. Smith stated the fact that deposits in Philadelphia have not been growing as fast as the national average suggests to me that one factor of this development may well be that Philadelphia banks are directing a considerable amount of their energies toward financing economic activities outside the City of Philadelphia; and further (I think at Page 618 and 619 of the transcript) that slow growth of deposits, according to Dr. Smith, is due to the fact that Philadelphia is exporting capital to the outside.

Will you comment on that?

A. Yes.

I think that the slow growth of the deposits in Philadelphia, which is also true, I may say, at the time of the City of New York, is unrelated to the lending activities of the banks located in those areas.

I think that the slow growth of deposits is a direct result of the ratio of total economic activities carried on in those particular areas.

Now, it is, of course, a fact that the more settled and older areas of the country are growing less rapidly than some of the newer areas in the South and the West; and that factor has resulted in an increase in deposits in banking institutions in the South and West at a more rapid rate [fol. 2967] than has occurred for deposits in the older and more settled portions of the country, such as Boston, New York, and Philadelphia.

It is also true that with the rapid rate of growth of the economies of certain of the western and southern areas of the country very large banks have been developed or have arisen in those areas which have attracted a good many

of the correspondent balances which previously went to some of the larger eastern centers.

I think it is also along that line that we get an explanation of the relatively slower growth of deposits in Philadelphia and in New York, I may say, than in certain other areas.

Q. In your opinion, Doctor, should Philadelphia have a larger bank than it has presently?

A. I think it would be beneficial to Philadelphia to have a substantially larger bank than it has at present.

Q. Why?

A. Do you want me to say why?

Q. Why, please?

A. Because I think the population of Philadelphia, the volume and size of industries currently located in Philadelphia relative to population, volume size of industries located elsewhere justify, and, in fact, necessitate, if you [fol. 2968] would like to put it that way, Philadelphia having a larger bank in order to serve more adequately the needs of a community as large and active industrially and in other ways as the City of Philadelphia is.

Q. If this merger is consummated, Doctor, in your opinion could the merged bank control or otherwise adversely affect the total lendable money supply, bearing in mind the number of sources that exist in Philadelphia?

A. I am of the opinion that the merged bank could not control—I forget the exact wording of that question, but I will answer the question "no."

Q. Could it prevent prospective depositors from making deposits in other banks?

A. Certainly not.

Q. Could it prevent prospective borrowers from having their borrowing needs adequately supplied by other banks?

A. No, it couldn't prevent it.

It is true that the different sized banks have an effect upon the ability of borrowers to obtain large loans from them because of the 10 per cent limitation, but the mere fact that this merged bank can now make bigger loans would not reduce in any respect the loan limits of any of the other banks.

[fol. 2969] Q. Could the merged bank fix the rates of interest imposed by other banks?

A. No. They could fix the rate of interest on their own loans and if they stepped out of line they would probably lose some of them from the merged bank.

Q. Could the merged bank prevent other banks from performing banking services?

A. No.

Q. Is there any present evidence of such restrains in Philadelphia?

A. Not to my knowledge.

Q. Has there ever been within your experience?

A. No.

Q. Is there any evidence that any of the mergers heretofore accomplished in Philadelphia have created any such restraint?

Mr. Reycraft: Your Honor, I object to his asking him about restraint. He is asking for a legal conclusion in that respect.

The Court: Overruled. I will hear it.

A. As far as my observations and readings go, no.

Q. Incidentally, Doctor, in your opinion are the other [fol. 2970] banks in Philadelphia strong, vigorous institutions?

A. Yes. They are. I don't profess to have a hundred-per-cent knowledge of every little bank, Marian, Sonsitaly. I have intimate contact with practically all of the larger Philadelphia banks. All of the state banks have appeared before me from time to time with branch applications, and I may say that one of the factors that we take into consideration there is the type of management and quality of management of the applicant bank.

Q. Is the management of most of them strong?

A. Yes.

Q. Vigorous?

A. And I would say that the majority of all of those banks which have come before me and also the three national banks in town (which have not come before me) are strong and vigorous.

Q. If this merger is effected would you expect the competition among banks in Philadelphia or in the Philadelphia area to be greater or less or the same?

A. I would expect that this would sharpen and in all

probability increase competition among the Philadelphia banks.

I believe that that has been the effect of prior mergers. I believe that competition today is more keen among the [fol. 2971] seventeen banks in the city than it was fifteen years ago among the thirty-four banks in the city.

Within limits, I believe that a reduction in the total number of banks increases rather than diminishes competition.

I am further of the opinion that that has been the effect in England, for example, where it has gone very much farther than it has here.

Mr. Littleton: Mr. Price?

By Mr. Price:

Q. What would you say of the concentration of commercial banking in the Philadelphia areas, as to whether it will be either substantially or unreasonably increased?

A. Concentration will be slightly increased, of course, by this merger; but even after that Philadelphia comes rather low down on the line of banking concentration in reference to other large cities, notably reserve and central-reserve cities, in the country.

I believe that there will be no undue concentration of banking resources in the city resulting from this merger.

Q. What would you consider as to the effect, either beneficial or adverse, of whatever concentration there may be? [fol. 2972] A. I consider that the over-all effect will be beneficial.

Q. What can you say about existing and potential competition in commerce and industry served by the commercial banks in the Philadelphia area as a result of the proposed merger?

A. I consider that commerce and industry have more than adequate alternative sources of meeting their financial needs and will have completely adequate alternative sources for meeting their financial needs after this merger takes place.

Q. And as to the increased size of the merged bank, would that have a beneficial or non-beneficial effect on commerce and industry in the service area?

A. I think it would have a beneficial effect, particularly, of course, in the field of larger industry, which will create facilities in this city which do not at present exist.

Mr. Littleton: Cross-examine, Mr. Reycraft.

Mr. Reycraft: Do you have any objection to Mr. Degnan reading the cross-examination?

Mr. Littleton: Oh, certainly not.

The Court: Gentlemen, is this the beginning of cross-examination?

[fol. 2973] Mr. Littleton: Yes.

The Court: Let us start at 2:00 o'clock.

(Recess taken at 12:20 P.M. until 2:00 o'clock P.M.)

[fol. 2974] AFTERNOON SESSION

Present: Counsel as before noted.

The Court: Very well, Mr. Degnan.

Cross-examination.

(The examination conducted by Mr. Reycraft was read by Mr. Degnan.)

By Mr. Reycraft:

Q. Dr. Harris, when did you begin your study of the proposed merger?

A. Do you mean specifically this matter?

Q. Yes.

A. About ten days prior to June 5th, where I think this case opened in court. I believe that was about the time that I was consulted by the attorneys for the banks, but I had previously considered it.

Q. You were first consulted about ten days prior to June 5th?

A. Just about.

Q. And you began your study at that time?

A. I didn't hear that.

Q. And you began your study at that time?

[fol. 2975] A. I began my specific studies, yes.

Q. Who made the request of you, sir, to testify?

A. The attorneys for the Philadelphia National Bank.

Q. Mr. Littleton?

A. And also for the Girard. I'd say Mr. Price and Mr. Littleton.

Q. And you were acquainted with these gentlemen before; is that correct?

A. Yes.

Q. What did you do, sir, beginning about May 25th, in your study?

A. I first obtained the application of the two banks to the Comptroller of the Currency and studied it.

I then obtained copies of the—I don't know what you call them—letters or opinions to the Comptroller of the Currency submitted by the Department of Justice, the Federal Reserve Board, and the FDIC.

I read the complaint of the Department of Justice in this case, and the answers filed by the banks.

I was told that the Keith report would be involved in it, so I reviewed the Keith report, although I had previously been familiar with the material, because Dr. Keith, when he was making it up, submitted to me for my comments sections of the Keith report as it was prepared, because at [fol. 2976] the same time the Secretary of Banking of Pennsylvania was making a study of banking concentration in this area and I was acting as technical adviser to the Secretary of Banking in that study. Consequently, Gordon Keith and I compared notes, so to speak.

I then read certain sections of the Federal Reserve report to Congress on the "Financing of Small Business," and a number of other articles in various publications, which seemed to me to bear upon the question.

I received from the two banks a great deal of statistical material which they were proposing in one form or other to introduce into evidence.

Q. And whom did you discuss——

A. And I attended the meetings here and studied the exhibits of the Department of Justice.

Q. Did you interview any people in the Philadelphia area in connection with your study?

A. Not after the ten days prior to the meeting. Prior to that time I had discussed this matter with a number of people.

Q. Prior to what time, sir? Prior to the time that you began your formal study?

A. That's right.

Q. Yes. Whom had you discussed the matter with prior to that time?

[fol. 2977] A. I discussed the matter with Mr. De Haven Devlin, president of the Bryn Mawr Trust Company. I had discussed the matter with Mr. Samuel Weinrott, then president of the Industrial Trust Company. I discussed the matter with Hubert Horan, Jr., then chairman of the Board of the Broad Street Trust Company, and Harrison Jones, president of the Broad Street Trust Company.

I discussed the matter with Graeme Lorimer, one of the directors of the Girard Trust Company, and I discussed the matter with Bob Myers, then Secretary of Banking of the Commonwealth of Pennsylvania.

All of those discussions were informal in nature and at the time of the discussion I had no knowledge of the fact that I would be asked to testify.

Q. Did you discuss the merger at any time with any of the Trustees of the University?

A. Of Pennsylvania?

Q. Yes, sir.

A. No.

Q. Are there any trustees who are officers or directors of either of the banks?

A. Yes, I think so. I would have to get the list of Trustees to answer that question in detail.

[fol. 2978] I am not sure whether Mr. Day is a trustee or not.

Q. But you did not not discuss the merger with him?

A. What?

Q. You did not discuss the merger with him?

A. I did not discuss the merger with any member of the University Board of Trustees.

Q. Now, you say, sir, that you have examined the Federal Reserve Board opinion on this merger?

A. Yes.

Q. And I take it that you disagree with that opinion?

A. Yes—I disagree with the conclusion. I am not quarreling with some of the statistical facts alleged therein.

Q. But you do disagree with the conclusion?

A. Yes.

Q. All right.

Did you make a study, sir, or give any consideration to the location of the branches of the two banks in reaching your conclusion?

A. I am not sure that I know exactly what you mean. I was shown a map, showing the location of the branches of these banks, and prior to that I had some knowledge of it because, as far as the Girard Trust Company branches are concerned, the opening of those branches normally came before the Banking Board.

[fol. 2979] Q. I believe I have some recollection that in your testimony in chief you indicated that you had an opinion as to the degree of competition among these two banks' branch systems?

A. Yes.

Q. Is that correct?

A. That's correct.

Q. Would you summarize your opinion for us in that regard?

A. Well, this is my feeling in the matter:

With the exception of the branches in Upper Darby, which are, I believe, side by side, and the merged bank is proposing to close one of them, I believe that no other of their branches in the outlying counties are nearer together than approximately two miles. There may be some individual exceptions to that, a mile and a half, perhaps; but there is a substantial—there is that much difference between their locations.

Now, when banks apply for the opening of branches and it appears before the Banking Board, they invariably submit to the Board, substantiated by maps and so on, what they call the particular local area from which they expect to draw the bulk of their business; and in practically every case which has appeared before the Board that area has a diameter of not more than a mile and a half or so.

[fol. 2980] Consequently, I do not think that so far as the county branches are concerned they are in the main actively in competition with one another; I mean speaking of the Girard and the Philadelphia National branches.

Consequently, the merging of the two institutions will not, in those locations at any rate, change the local picture.

Here is a location which now does business with a choice among, let us say, the Girard, the Provident, and the Broad Street Trust. After the merger, what will the local choices be in that area? The Philadelphia National Bank-Girard, the Provident, and the Broad Street Trust.

Q. So I take it that it is your opinion then that banks which are further than a mile and a half or two miles from each other are not in competition with each other?

A. Well, there may be overlappings of competition, yes; and in fact, that's admitted before the Board.

I am not talking about the bulk of their business. I think the bulk of their business, I think the bulk of their branch business would not be in strict competition with one another; that is from the active-competition standpoint, but from the latent-competition standpoint customers would have a choice, which I think would be unaffected by the [fol. 2981] merger.

Q. There is potential competition, then, in other words?

A. Yes.

Q. But so far as your study is concerned and your knowledge of the way banks operate, you would say that banks which are a mile and a half to two miles away from each other are not in substantial direct competition?

A. Well, they form alternative choices for customers.

Q. Is the answer to my question——

A. Potential.

Q. Can you answer my question?

A. I don't think they seek each other's business actively.

Q. Would you say they are not in substantial direct competition?

A. I should say that the direct competition was limited to larger loans dealing with bigger industrial establishments; and so far as the types of business which I have referred to, such as personalized accounts, small-deposit accounts, safe-deposit facilities, consumer loans, that they were not in direct competition.

Q. So that over-all you would say they are not in substantial direct competition; is that correct?

A. I don't know what you mean by "substantial."

[fol. 2982] Q. Well, you used the term in your direct testimony, so I assume you know what it means.

Mr. Littleton: What do you mean by "over-all"?

By Mr. Reycraft:

Q. The banking business in which they engage, are they in substantial direct competition?

A. They are in some competition, yes.

Q. Is it substantial in the same sense in which you used the word?

A. It is substantial in certain of the larger areas that I mentioned; not substantial with respect to certain of the smaller areas.

Q. In which areas is it substantial?

A. It's substantial in the areas of larger business borrowers who can go and cover larger territory to obtain loans.

Q. Now, as you pointed out in your direct testimony large and small are arbitrary concepts.

Will you indicate the sense in which you are using them, then?

A. What I had in mind by large and small?

Q. Yes.

A. $50,000 is the breaking point.

Q. So that for $50,000 and more, loans of that size, you would say they are in substantial direct competition?

[fol. 2983] A. I would think so.

Q. All right.

Now, does it make any difference whether the banks we are referring to are branches or whether they are head offices?

A. Well, it's a little difference of technique involved in it. There are loan limitations imposed upon branch managers, so that for loans above certain sizes branch managers would have to have contact with the central office, perhaps, in order to get ability to grant loans. There are those differences.

Furthermore, larger loans, I think, are normally discussed and taken up initially at the home office rather than at the branches.

Q. On the basis of your study of the applications which were made to the State of Pennsylvania while you were there and on the basis of your knowledge of banking, if there were two banks with head offices two or three miles apart, would you say that there was substantial direct competition?

A. Yes.

Q. Again in the same size loans, $50,000 and above?

A. You are talking about two banks a few miles apart, their head offices?

Q. Yes.

[fol. 2984] A. Yes. We have that in Philadelphia, where our banks are possibly a square apart. The competition is very substantial.

Q. That is between the Philadelphia National and the Girard?

A. Yes. At the present time there is competition in Philadelphia between the Philadelphia National and Girard.

Q. And you say that is substantial direct competition?

A. Yes, and it will be eliminated by the merger. I will go as far as that.

Q. Thank you.

Dr. Harris, will you refer to D-10 and tell me whether, in your opinion, all of the branches of the Girard Trust Corn Exchange Bank which are shown for Philadelphia are in competition with one or more branches of the Philadelphia National Bank?

A. Yes. I would say that there was some competition in Philadelphia between the main office and the branch offices of the Philadelphia National and Girard Trust Company.

Q. All eleven of them?

A. What's that?

Q. All eleven of the branches of the Girard which are indicated on the exhibit?

A. I would say so. I might have some question as to the [fol. 2985] Roosevelt Boulevard and Holme Avenue, Frankford, two miles separate.

Q. Now, have you made any specific study of the area from which these branches or offices draw their banking business?

A. Within Philadelphia?

Q. Yes, sir.

A. No, I have not.

Q. You have not had occasion to look at the type of evidence you would examine in a state-banking matter where maps showing the origin of deposits, for example, are submitted?

A. Within the City of Philadelphia?

Q. Yes.

A. No, I haven't made that study.

Q. So if it is two miles away you don't know whether there is business within the area with both banks or not, do you?

A. There may be some overlapping of that market, I am perfectly willing to agree.

Q. But you haven't made any specific study of it?

A. I haven't made any specific study of the branches within the City of Philadelphia.

Incidentally, they don't come before the Board. The Board has no jurisdiction over branches within the City of Philadelphia.

Q. Yes, but I am referring to your general experience in [fol. 2986] examining branch applications where you would consider the origin of the deposits and loans of the applicant bank.

A. I have not made a similar study within the City of Philadelphia. My studies have been confined to the surrounding areas.

Q. All right.

In Delaware County would you say that any of the branches of the Girard indicated on D-10 are in competition with any office of the Philadelphia National Bank?

A. I should say there was no active competition there, but potential competition, except for the Market Street—PTC Terminal branches, which are side by side, and one, I think, is going to be eliminated.

Q. Now, have you examined any figures to determine the source of deposits and loans of any of these banking offices in Delaware County?

A. As far as the individual offices are concerned?

Q. Yes, sir.

A. The only figures I have seen are the figures that were made up by the bank as to the source of their business within the city and within the four-county area; but so far as the individual offices are concerned, the answer is no, I have not made such a study.

Q. And you are referring now to exhibits which are in [fol. 2987] evidence in the case or which have been marked?

A. I think they are in evidence. I am not sure.

They are not in evidence?

Mr. Littleton: They are not.

The Witness: They were figures that I have seen that were shown to me by the banks, but apparently have not yet been introduced.

By Mr. Reycraft:

Q. There are figures on which you relied that are not now marked; is that correct?

A. On which I partially relied, not entirely.

Mr. Reycraft: May we have those?

The Witness: Even there, I don't think it breaks it down between specific branches. I don't think it does.

Mr. Littleton: Will you mark this D-30?

(Document consisting of three pages, the first page being entitled, "Amount of Time and Savings Deposits—Daily Average for June 1960 Distributed According to Location of Customers," was marked Exhibit D-30 for identification.)

Mr. Littleton: Mr. Reycraft, I have handed to the witness a document marked D-30, a copy of which I have given to you.

[fol. 2988] By Mr. Reycraft:

Q. Now, have you relied on any other figures in reaching the conclusions that you testified to with respect to competition among banks in the four-county area?

A. Figures?

Q. Statistics.

A. I will have to give that some thought because I have looked at an enormous volume of statistical figures, but I do not think in the main I relied upon specific sets of statistical figures to reach my conclusions as to the existence of competition among these banks.

Q. You did not rely on them?

A. I did not. I was relying more upon my own relationship to the banking community and my knowledge arising out of my association with the Pennsylvania Department of Banking for twenty years.

Q. But you have not seen at any time as far as you recall

any figures which would show the origin of deposits or loans for any particular offices of either of the defendant banks?

A. Not beyond these. This gives the origin of loans and deposits within——

Q. This being D-30?

A. —the four-county area, outside the four-county area and so on.

[fol. 2989] But as between the origin of loans of the Fifth and Market Streets, Chester, office, compared to the Eleventh and Madison Streets, Chester, office,——

Q. Yes.

A. —if that is what you are referring to, I have seen no such figures.

Q. In drawing your conclusions as to the amount of existing direct competition betwen any of these banking offices, you are relying on your general background?

A. Yes, primarily.

Q. And as to the offices indicated on D-10 in Delaware County, it is your testimony, is it not, that they are all in potential competition with each other?

A. That is right. They would be available and potential borrowers if they wished to use one as contrasted to another office, taking into consideration automobile and travel facilities there.

Q. And the distinction that you draw that they are not in direct active competition is based on the assumption that people do not make these choices; is that correct?

A. It is based upon the testimony that the banks have presented to the Board, because in every one of these cases they did come before the Board, and in the Delaware County situation, except the 6914 Market Street case, and [fol. 2990] there the banks showed the Board the surrounding territory from which they expected to draw the bulk of their business, and that surrounding territory did not embrace these other branches.

Q. None of that evidence is in this record, is it?

A. No.

Q. Now, as an economist, you say that borrowers have a choice of banks which are about two miles apart? Do I understand that that is your testimony?

A. Yes, they do have a choice.

Q. Does this indicate to you that they are in competition with one another?

A. Potential competition, yes.

Q. But not actual competition?

A. It may not be.

Q. What is actual competition?

A. The active rivalry and solicitation of business looked at from the bank's standpoint.

Q. And is it your testimony that banks two miles apart are not in active rivalry and solicitation for business of customers located more than a mile or two from them?

A. Their active rivalry and solicitation will be concentrated very heavily in the immediate area surrounding them.

Q. About a mile away?

[fol. 2991] A. Roughly that. It is very difficult to be too precise. My answer there is based upon testimony which the banks themselves give to the Board as to where the major business is going to come from a concentrated effort they are going to make to develop it in their area.

Q. It is based on a statement of their intentions?

A. That is right.

Q. But it is not based on any fact that you can point to in this record?

A. Statistical facts, no.

Q. Any other facts?

A. No.

Q. Will you refer to the offices that are indicated in Montgomery County on Exhibit D-10, Dr. Harris.

A. I see them.

Q. With reference to those offices, is it your opinion that any of the Girard offices are in competition with those of the Philadelphia National Bank?

A. Well, that one at 75 St. James Place, Ardmore.

Q. I can't hear you; I am sorry.

A. I say the one at 75 St. James Place, Ardmore, and 18 East Wynnewood Road, Wynnewood, one mile apart, may be said to be in competition with one another. The other distances are so great that the active competition that I have previously referred to probably does not exist [fol. 2992] to any degree in respect to those others. Nevertheless, potential competition places them within the reach

of prospective borrowers if the borrowers wish to change.

Q. So it is your conclusion that except for the St. James and East Wynnewood offices there is no active rivalry between the offices indicated for the business of borrowers?

A. That is my opinion.

Q. Now, with reference to the offices in Bucks County, what is your opinion?

A. The same as I have expressed for Montgomery County.

Q. That they are not in active rivalry for the business of borrowers in the area?

A. Yes, but again they constitute available sources of funds for borrowers in the area if they wish to shift. In other words, there is potential competition.

Q. And will you explain the difference between potential and active competition.

A. I have in mind there that active competition originates with the banks themselves, potential competition being the available sources to borrowers of funds or places for deposits as the case may be. After all, if a borrower becomes dissatisfied with Bank A, he may, within consider-[fol. 2993] able limits, shift to Bank B or C, even though Banks B and C are not actively seeking his custom. That would represent a distinction between potential and active competition.

Q. How do banks actively seek checking accounts?

A. Advertising, some personal visiting and solicitation.

Q. Where do they advertise?

A. Well, they may advertise in local papers, signboards, an attractive banking site.

Q. Are they actively soliciting accounts throughout the area where they advertise?

A. They are hoping for the best.

Q. Well, can you answer my question?

A. Yes.

Q. And they are actively soliciting business throughout the area in which they are advertising?

A. Yes.

Q. So that a bank, although it is five miles from another bank, is actively soliciting checking accounts of the persons——

A. So far as it is advertising, it is actively soliciting

checking accounts. Its expectation is that the advertising will have different effects upon the distance away that it [fol. 2994] is from the bank. Undoubtedly banks like to obtain deposits from anyone.

Q. Will you refer to D-11, which is the next exhibit in that compilation you have.

Referring to the branches of the Philadelphia National Bank set forth in Philadelphia, will you tell me whether, in your opinion, and based on your study, any of them are in competition with any office of the Girard Trust Corn Exchange Bank?

A. Yes, I think quite a number of them are.

Q. Will you tell me which ones.

A. Well, picking out some of the closest together, there might be some geographic handicap of transportation of one to the other which I could not be able to state, but I see some are 1¼ miles, 1¾; 1¼, 1 mile, 1 mile, 1½, 1¼. They are relatively short distances. They are, I take it, airline distances, and there may be some transportation obstacles in going from one to the other. I wouldn't know without an investigation in each case. I would say that there was a substantial amount of competition between those offices, in all probability.

Q. Among all of these offices?

A. Most of them.

Q. And with reference to Montgomery County, what is [fol. 2995] your opinion?

A. The degree of competition of an active nature will be substantially less.

Q. And as to the Haverford and St. James office, I believe you have already indicated you believe they are in competition. How about the Bala and City Line office and St. James, which is 3¼ miles?

A. Well, putting it on the basis of distance, there would be somewhat more competition with respect to Haverford Avenue and Essex Road and 75 St. James Place than there would be in the Bala and City Line Avenues.

Q. But you think they are in competition?

A. Very little direct competition for institutions that are here in the, say, 3½, 7½, 5½, 6½ miles apart, but again potential competition in the sense that they do represent locations to which borrowers may turn if they so desire.

Q. How about Delaware County?

A. Well, my answer would be substantially the same in respect to the Delaware County ones as I have just given in respect to Montgomery County.

Q. Dr. Harris, you testified, I believe, that, in your opinion, there are sufficient alternatives available to borrowers in the four-county area; is that correct?

[fol. 2996] A. That is.

Q. How many alternatives do you think are necessary in order to have an adequate number?

A. I have no opinion as to the exact number without a study of the size of the area, its activity, economic resources, and so on.

Q. I assume you have made such a study?

A. You mean just of Philadelphia?

Q. Yes, sir, the four-county area.

A. Oh, I see, the four-county area. Well, we have, I forget how many banks in the four-county area now. It is in evidence.

Q. Well, you may refer to any exhibit you like.

A. (Referring to Exhibit D-16.) 41 commercial banks now existing in the four-county area.

And you want me to say how many I think would still retain a competitive aspect of the area?

Would you mind repeating your question?

Q. You have done it very well. How many would be necessary to retain a sufficient number of alternatives for borrowers in the area?

A. Of course, I can pull any figure out of a hat. I don't think the question is susceptible of an accurate answer.

[fol. 2997] Q. You don't have an opinion?

A. I have an opinion that the number of banks which will remain after the merger constitute adequate alternatives. Now, if you ask me whether one more merger will adversely affect the situation, I would say probably not. You ask me if one more after that will, and I will say probably not. Pretty soon you will reach a point where the concentration may become too great.

Q. What point is that, Dr. Harris?

A. Do you want me to say something? Three banks in the area would probably be too great a concentration.

Q. How about four?

A. Well, taking the basis of five in Great Britain, I would say that five would leave adequate competition.

Q. So it would be your opinion, then, if the two defendant banks merged and then merged with the First Pennsylvania, that there would be sufficient alternatives available after that merger?

A. That is a purely speculative question, but my answer would be yes, I think there would.

Q. In your opinion, does the nature of the alternatives in terms of the supply of funds they have available have any bearing on your conclusion?

A. It has a bearing in this sense, of course, that I am [fol. 2998] assuming that the alternatives can meet the ordinary demand for funds made on the part of their customers. Now, if the supply of money in the banking world in Philadelphia is inadequate to meet the business demands upon it, they couldn't meet it except by borrowing from outside. I am not sure I see the point of your question.

[fol. 2999] Q. So as far as you are concerned, it has no important bearing on the competitive effect if 50 per cent of the available funds are held by one institution and smaller percentage is held by the remaining alternatives?

A. I think the only significant effect would have to do with very large borrowers who would now be able to borrow from the large bank but not from the smaller ones.

Q. So, in general, it is your opinion that the relative size of the bank has nothing to do with its competitive ability?

A. I won't go so far as to say that, but up to 50 per cent I think it has little to do with it. That was the figure you gave. Of course, you can get a position where you have only one bank left, and that is a hundred per cent, and that has a little to do with the competitive situation.

Q. You think the type of banking system that exists in England is a pretty good one and a pretty competitive one?

A. I think it is very competitive in England, and they have five large commercial banks blanketing the entire country.

[fol. 3000] Q. You think the same kind of banking system would be good for this country?

A. No. The answer is no. We have too many complications here, including 50 different states with 50 different

laws, and the geographic area is so much greater. I wouldn't be in favor of seeing the entire banking business of the United States in the hands of five banks with national branches spread over the country.

Q. But you don't have any problem with a smaller area than the United States?

A. The problem is different with smaller areas. I think there are numerous areas where three banks will be entirely adequate to keep competition keen, which opinion is shared by the FDIC in their 1960 report.

Q. Dr. Harris, in your opinion, would there be an undue concentration of banking assets in the four-county area if, after the Philadelphia National Bank and the Girard Trust Corn Exchange Bank merged, they then merged with the First Pennsylvania and then merged with the Provident Tradesmens?

Mr. Littleton: Objection.

Mr. Degnan: Your Honor, I think this question simply further explores the limits which Dr. Harris earlier testified [fol. 3001] that he thought were permissible in bank mergers and in concentration of bank assets in the Philadelphia area. He explained that there were limits. We think the question is proper to determine what those limits are.

The Court: I sustain the objection.

Mr. Degnan: Your Honor, may we read into the record the questions and answers which follow the objection which has been sustained?

The Court: You may copy them, yes, and submit them as an offer of proof so that your record will be protected, but they can't be read into this record.

(By direction of the Court, the following proceedings were copied and submitted as an offer of proof but were not read into the record:)

"A. Are you talking about it as an immediate thing occurring right now, with all these other banks in the same relative size position?

"Q. Right now.

"A. I am trying to think what percentage of assets those four banks would have. It is mental arithmetic in my mind and it is somewhat difficult.

"I am inclined to think there would still be adequate

competition, assuming the existence of the other banks [fol. 3002] in their same state of vigor and size.

"Q. Suppose they then merged with the Fidelity-Philadelphia?

"Mr. Littleton: I object again. This is the type of thing the Court sustained our objection to before.

"The Witness: Do you want me to answer it?

"Mr. Reycraft: What is your objection?

"Mr. Littleton: My objection is not only to the form of the question, but my objection is to the substance. Of course, I reserve it to the time of trial.

"Mr. Reycraft: Will you answer the question, Doctor.

"A. It is hypothetical. Ultimately a point will be reached, no doubt, where too much concentration is possible, and the point may be about at that level.

"By Mr. Reycraft:

"Q. At about what percentage of the assets would the combined bank have at that point?

"Mr. Littleton: Objected to.

"A. Well, we have active competition in various areas of the United States where the lead bank has 69 [fol. 3003] per cent, for example, of the assets.

"Q. And, in your opinion, this is not an undue amount of concentration?

"A. A little larger than I would like, perhaps, but not undue and still leading to active competition with the remaining banks.

"Q. You would think there would then be sufficient alternate sources of credit available so that a satisfactory competitive situation would remain?

"A. As applied to Philadelphia, yes, where there are a lot of other banks."

(End of proceedings not read into the record.)

Q. So that you think, in Philadelphia, if one bank had 69 per cent of the bank assets, and there were 14 remaining alternatives, that this would be sufficient so that you would not have an undue effect on competition?

A. That is my opinion.

Q. Do you think if it went beyond that that you would have an undue effect on competition?

A. You can always reach a danger point in pursuing that. It is quite impossible to fix accurately a given percentage which will be safe on one side and unsafe on the other.

Q. But there is some point in your opinion where there would be an undue concentration of banking assets?

[fol. 3004] A. Undoubtedly we can have a situation of undue concentration of banking assets, yes, that's a possibility.

Q. Yes.

What do you consider the competitive disadvantages of an undue concentration of banking assets?

A. A reduction of alternative choices to individuals who wish to use the services, and an undue reduction. I consider that more significant than the mere factor of size.

Q. So that then if the percentage did go up to 70 or 80 per cent, if there were ten or twelve alternatives left, you would not think there was an undue reduction in competition?

A. You are getting up pretty high.

Q. Pardon me?

A. I say you are getting up pretty high. I am inclined to think that that would be too much concentration, 80 per cent.

Q. Why?

A. Because when you visualize 14 other sources, they must be too small; otherwise you wouldn't have 80 per cent in this single large bank in order to accommodate a large percentage of the borrowers of the community who are limited from dealing with the small bank by reason of a loan limitation.

[fol. 3005] Q. How small is "too small"?

A. I can't answer that question, how small is "too small."

By Mr. Reycraft:

Q. Well, you do have an opinion as to how large the alternative has to be in order to be a sufficient alternative, do you not?

A. To accommodate a very substantial percentage of the borrowers who may need reasonable sums for conducting their business activities in that community.

Now, if you put 80 per cent of the assets in one bank and have 14 other banks containing 20 per cent of the assets, they

must, in the nature of the case, be too small to entirely accommodate people who need accommodations.

Q. But they are still existing alternatives, are they not?

A. For the lower, very small businessman and individuals, yes.

Q. And the larger businesses have alternatives in other cities, don't they?

A. If they are very big, yes; but there is an intermediate group that would be adversely affected there, medium-[fol. 3006] sized businesses who do not have sufficient credit standing to readily accommodate their needs in distant points.

We are now talking about an 80 per cent concentration and you asked me some of the disadvantages of it and I think I have mentioned that I think there would be some.

Q. And medium-sized businesses rely primarily on the banks in their own local areas?

A. To a very large extent. They could go across the river and things of that kind.

Q. Are you referring to medium-sized in terms of their assets or in terms of the loans they are seeking?

A. I used the word "medium-sized" in reference to businesses, and I had in mind the loan accommodations that they would probably need.

Q. Can you give me a figure or a range of figures as to medium size that you have in mind?

A. $50,000.

Q. To what? Is that the lower limit or the upper limit?

A. For medium size?

Q. Yes.

A. $50,000 to $250,000; something in that neighborhood. [fol. 3007] I don't think you can place accurately lines of demarkation.

Q. Now, assuming that there are other financial institutions in the area, do you still think that 80 per cent concentration would be undue among commercial banks?

A. 80 per cent concentration in a single bank?

Q. Yes.

A. I think that's going too far.

Q. Couldn't the other financial institutions supply the needs of these businesses?

Mr. Littleton: May I ask what you mean by "other financial institutions"? Do you mean other commercial banks or do you mean other financial institutions other than commercial banks?

The Witness: I think they could supply a lot of the needs.

Mr. Reycraft: Other than commercial banks?

The Witness: They could supply retail needs, they could supply consumer credit needs.

They could not supply the needs of the larger businessman wishing to make commercial loans.

By Mr. Reycraft:

[fol. 3008] Q. Now, in your opinion do businesses require the services of commercial banks in order to engage in business services?

A. Do businesses require the services of commercial banks? Was that your question?

Q. Yes.

A. Normally, yes.

Q. And for the services which the businesses require from the commercial banks, is there any adequate substitute?

A. For some of the services, yes. For others, for demand deposit services, there is, in my opinion, for the businessman no adequate substitute.

For certain types of lending, to meet the borrowing needs of the businessman, there are adequate substitutes.

Q. Are there any types of lending activities, Doctor, for which there are no adequate substitutes for commercial banks?

A. Unsecured commercial loans, on a short-term basis, would be very difficult to procure elsewhere.

Q. So for loans of that type there is no real competition from savings and loan associations, for example, is there? [fol. 3009] A. No. Savings and loan associations do not make unsecured commercial loans.

Q. Or from insurance companies?

A. Sir?

Q. Or from insurance companies?

A. Insurance companies are likely to enter into only the longer term field lending. Insurance companies in the Phila-

delphia district do not make short-term unsecured commercial loans.

Q. And there is no competition from mutual savings banks, is there, for this type of activity?

A. Mutual savings banks in the Philadelphia area do not make short-term unsecured commercial loans.

Q. Or personal finance companies?

A. Well, now, you are verging on another thought. Some of the very small business loans now made by commercial banks take the form of a personal loan.

Q. From personal finance companies?

A. And may be obtained in that sense from personal finance companies, but it would be at very low levels of dollar volume.

Q. Now, we have done a lot of talking about lending limits.

What is the lending limit of a personal finance company [fol. 3010] in Pennsylvania.

A. A small-loan licensee, the lending limit is—it has no lending limit, but it can charge rates above six per cent simple interest only for loans up to $600. It can lend more than $600, but can only charge six per cent simple interest if the loan goes above that.

However, we have also consumer discount companies which can charge six per cent on a discount basis and go up to $2000.

Both of those institutions might supply to those limits the short-term commercial needs of very small businesses.

Q. Dr. Harris, will you refer to D-29, which is the ratio of loans to assets for insured commercial banks in the United States.

A. This is D-29? Is this the one you meant?

Q. D-29 is what I was referring to.

Now, Dr. Harris, was D-29 prepared at your direction?

A. Yes, it was.

Q. Why did you have this chart prepared for banks in the whole of the United States?

A. The sources of the material did not give us the information for the four-county district.

[fol. 3011] Q. Do you think that the information for the entire United States has any meaning?

Mr. Littleton: Has what?

Mr. Reycraft: Any meaning.

The Witness: Some, yes. It would have been a little more pertinent if we could have gotten the same figures for the four-county district.

By Mr. Reycraft:

Q. Did you consider it sufficiently meaningful to include it?

A. I give it some significance.

Q. Do you have any figures for banks with assets of $1 billion, that is, the breakdown for banks over $1 billion?

A. No. The FDIC did not break down beyond that limit.

Q. And you don't have any figures?

A. And I don't have them.

Q. Do you have any information as to the ratio of loans to assets beyond that point?

A. No.

Q. So that you don't know, for example, whether on the basis of the type of data indicated that you have used, whether a $2 billion bank would have a higher or lower ratio of loans to assets?

[fol. 3012] A. I do not know.

Q. What are the assets of the Philadelphia National Bank at the present time?

A. That's in evidence somewhere.

Q. About $1 billion?

Mr. Littleton: D-15.

The Witness: Their assets, $1,183,949,306 as of December 31, 1960.

By Mr. Reycraft:

Q. Do you know what its ratio of loans to assets is at the present time?

A. Of the Philadelphia National Bank?

Q. Yes.

A. I don't, but I think it's in evidence.

Q. You didn't check that in connection with your testimony?

A. No, I did not.

For the Girard, if you are coming to that, I believe the percentage there is 56 per cent, higher than any of these given here.

Q. And what are the assets of the Girard?

A. The assets of the Girard are $791,463,722 as of December 31, 1960.

Q. And it is your conclusion that the merged banks could [fol. 3013] increase their ratio of loans to assets?

A. I am sorry, I didn't hear that.

Q. Is it your conclusion that the merged bank could increase its ratio of loans to assets?

A. I think it highly probable.

Q. It could increase over 56 per cent?

A. Well, I understand that the Philadelphia National ratio is less than 56 per cent. I don't know just exactly what their percentage ratio would be when they were merged.

Q. You don't know what it is now, but you think it could be increased?

A. I think so.

Q. Suppose it was 60 per cent?

A. What about it?

Q. Could it be increased?

A. It could be.

Q. Is it sound banking to do so?

A. That they have loans of 60 per cent?

Q. Yes.

A. To total assets?

Q. Yes.

A. Yes, sound banking if the loans are of good quality.

Q. Do you know what the ratios are of other banks in this area?

[fol. 3014] A. No, but I can calculate any one for you if you like on the basis of December 31, 1960, from D-15, which gives for every bank in the ten-county district its total assets and its total loans as of that date.

Q. But up to the present moment you haven't done that?

A. I haven't done the computation myself.

Q. You don't know how the Philadelphia National, for example, compares with the other banks in the area with respect to this ratio?

A. I haven't made that computation.

Q. Or the Girard?

A. I didn't make this computation. I was informed that the Girard ratio was 56 per cent.

I can verify it by making this computation.

Mr. Reycraft: That's quite all right.

By Mr. Reycraft:

Q. I believe you testified also earlier with reference to mortgage loans that the two merging banks had all they could handle; is that correct?

A. No. I didn't say they had all they could handle. I said a good many of the national banks did, but the two merged banks are not up to their legal limit. They could take more mortgage loans.

Q. Did you testify that they have all they wanted, that [fol. 3015] they have all they want to get? Did you testify to that?

A. That was an opinion. My opinion was that they could get all they wanted.

Q. And that the reason they didn't have any more is because they don't want any more?

A. Well, that's largely the reason so far as their central office is concerned. They may be interested in increasing mortgage loans somewhat in some of their branches in residential areas.

Q. Does this indicate to you that they are in active competition with savings and loan associations?

A. For mortgage loans?

Q. Yes.

A. Not very.

Q. Dr. Harris, you testified yesterday, I believe, that you were a member and have been a member of the State Banking Board since 1955; is that correct?

A. Correct.

Q. And you are now a member of the State Banking Board?

A. I am currently a member of the State Banking Board.

Q. During that time, Dr. Harris, have you had an opportunity to pass upon any bank mergers submitted to the State Banking Board?

[fol. 3016] A. No.

Q. Have any been submitted during that time?

A. No. The State law was changed in 1955, taking mergers out of the jurisdiction of the Board.

Q. Who now has jurisdiction?

A. As far as the national banks are concerned, jurisdic-

tion is in the Comptroller of the Currency. As far as state banks are concerned, the jurisdiction is within the discretion of the Secretary of Banking.

Q. Does the Secretary of Banking have any responsibility to the Board on mergers?

A. No.

Q. So during all of your time on the State Banking Board you have had no direct connection with bank mergers?

A. That is correct. As a Board member.

Q. Pardon me?

A. As a Board member.

Q. During this time you have been, as I understand it, one of the members at large appointed by the Governor?

A. That is true.

Q. And there are ten members of the Board?

A. There are ten members legislatively. I believe that there is one vacancy on the Board at the present time.

[fol. 3017] Q. Is the vacancy in the four at large members or in the six members nominated by the Pennsylvania Bankers Association?

A. I am not sure. I think the vacancy arises out of the death of Mr. Burns, president of Beneficial. I believe his place has not been filled. I am not sure whether he was an at large member or a member nominated by the PBA.

Q. During this time you have also been a director of the Broad Street Trust Company; is that correct?

A. That is true.

Q. You are not appearing here on behalf of the State Banking Board, are you, Dr. Harris?

A. Not at all.

Q. Did you during the time that you have been a member of the State Banking Board ever pass upon any branch application of either of the defendant banks?

A. Yes, the Girard. Not the Philadelphia National Bank: The national banks don't come before the Board.

Q. Which branches of the Girard did you have an opportunity to consider?

A. I don't recall at the moment.

Q. Was there more than one?

A. There may have been. I would have to check on my files extending over a period of five or six years to ascertain [fol. 3018] that.

Q. But since 1955 there has been at least one?

A. That is true.

Q. And I take it that it was approved?

A. Yes.

Mr. von Starck: May I interject here, Your Honor? Since this testimony was taken we have received a letter from Dr. Harris, who, as you know, is out of the United States at this time, and with your permission I would like to read his letter, which refers to this part of his testimony and constitutes, in effect, a correction or a modification of it.

The Court: Read it. Let's hear what he has to say.

(Mr. von Starck read the letter from Dr. Harris as follows:)

"I am a little worried about one thing I said in my testimony. I said I knew something of the location of Girard's branches, because Girard had been before the Board with branch applications. That was inadvertent. I am not sure that Girard has been before the Board. I believe that most, if not all, of their out of Phila- [fol. 3019] delphia branches were acquired by merger. I was thinking of the branch applications of other banks who always list the banking offices (including Girard's) within wide areas around the location applied for. From that, I was familiar with most of their cross-county branches but not as a result of applications made by Girard itself. I don't know whether it has any importance.

"Carlton."

The Court: Let it be marked.

(Letter on letterhead of University of Pennsylvania, addressed "Dear Arthur" and signed "Carlton," was marked Exhibit D-31 for identification.)

Mr. von Starck: There is what amounts to a postscript here.

"I had further knowledge of them as a result of several bus tours the Banking Board made in Delaware County and Lower Montgomery County, inspecting branch sites (including some of Girard's) particularly

those resulting from mergers with Upper Darby National and Narberth National Bank."

Q. How do you handle branch applications for the Broad Street Trust Company?

[fol. 3020] A. Exactly the same way we do other banks, except on an application of Broad Street Trust Company I do not vote.

Q. You do not vote on Broad Street Trust?

A. That is right.

Q. You referred yesterday, Dr. Harris, in your testimony to D-28, which is a study made currently by the Department of Commerce of the City of Philadelphia, and you referred to a mention in that study of banks. The study is entitled "Industrial Plant Location Data." I observe from looking at the index that in the 227 pages of text, banks are the last aspect mentioned, and I wonder if you would be good enough to read into the record what is indicated in the study with reference to banks.

A. The whole thing?

Q. Yes, sir.

A. This is Page 227 and is headed "Banks."

"Number of Commercial Banks and Deposits.

"1. Philadelphia is one of the leading financial centers in the United States. Bank clearings reached almost $60 million in 1955, ranking the city second only to New York.

"2. As of June 30, 1956, there were 23 commercial and savings banks in Philadelphia. Assets were [fol. 3021] $5,694,681,000; deposits, $5,021,619,000. Table X-H-1 shows the total assets and deposits of Philadelphia banks as of June 30, 1956.

"3. Since June there have been two mergers: Roosevelt Bank and Fidelity-Philadelphia Trust Company, and Provident Trust Company and Tradesmens Bank and Trust Company. The name of the latter will be Provident Tradesmens Bank and Trust Company, which will be the fourth largest bank in Philadelphia.

"The wave of mergers in Philadelphia has reduced the number of commercial banks from 39 in 1950 to 23 in 1956. However, these new and larger institutions

have increased capital available for capital improvement loans to industry."

Then they refer to a table which shows the table of bank assets and liabilities.

Q. On the next page there is also some information on commercial banks. Would you read that?

A. This is headed, on Page 228, "Commercial and Industrial Loans."

"As of June 30, 1956, Philadelphia members of the Federal Reserve System had total loans of $1,946 million. Commercial and industrial loans were $1,080 mil-
[fol. 3022] lion, or 55 per cent."

Q. Now, Dr. Harris, did I understand you to imply at all that, in your opinion, lending limits of commercial banks were any factor in the location of industrial plants in Philadelphia?

A. It might be a slight factor. I don't wish to overemphasize its importance.

Q. During the extensive experience that you have had in banking in Philadelphia and in State regulation have you ever known of any industry which has located an industrial plant in Philadelphia because of the lending limit of any bank?

A. No.

Q. Do you know of any which has not located an industrial plant in Philadelphia because of the claimed inadequacy of the loaning limit?

A. No.

Q. Do you think there are any such plants?

A. I think it is possible. I don't know of them by name.

Q. You referred also, Dr. Harris, to the usury rate in Pennsylvania for loans of commercial type. Is there any way in which an effective rate of interest in excess of 6 per cent can be charged by banks?

[fol. 3023] A. Yes, against corporations.

Q. How?

A. The 6 per cent usury limit does not apply to corporate borrowing.

Q. So that the range of variation which banks have to

charge an interest rate varies from, you gave the lower limit as 4½ per cent, as the prime rate?

A. That is not a legal factor. There is no law limiting banks from making loans below the prime rate. I was talking about the general practice.

Q. So that is not a limitation, really?

A. That is not a legal limitation certainly. The banks have loans at lower than prime rates.

Q. What is the upper limit?

A. Well, for individuals it is 6 per cent. For corporations I know of no upper limit, and, of course, for certain other types of individual loans, such as loans up to 3500, there are still other limits. In other words, there isn't a single usury law. There are quite a number of usury laws applicable to different types of loans. A large loan, whether made by a corporation or not, to which the 6 per cent limit does apply, would be a loan secured by a mortgage.

Q. So that there is a large range of possible variation in interest rates on commercial and industrial loans, is [fol. 3024] there not?

A. Quite a large range, yes. As far as the law is concerned.

Q. Pardon me?

A. As far as the law is concerned.

Q. Dr. Harris, returning for a moment to the subject of location of industry and its possible relationship to bank facilities, I will read you an answer which you gave Mr. Price yesterday.

The question is on Page 107. I will read both the question and the answer.

> "Q. And as to the increased size of the merged bank, would that have a beneficial or non-beneficial effect on commerce and industry in the service area?
>
> "A. I think it would have a beneficial effect, particularly, of course, in the field of larger industry, which will create facilities in this city which do not at present exist."

Now, Doctor, do I understand from your answer that the facilities referred to are facilities which may be created by industry in Philadelphia or is this facilities of banks?

A. I was referring to borrowing facilities on the part of [fol. 3025] industries. I had in mind very largely industries already located here which find it impossible to meet all of their financial requirements from Philadelphia banks.

Q. But you did not intend in any way to suggest an industry will create facilities in this city which do not presently exist?

A. That was not my intention in answer to that question.

Q. Now, you referred also yesterday, Dr. Harris, to the suggestion that if interest rates were cut by banks, the banks would run out of excess reserves and that they would be overloaned. Do you recall that?

A. If you say I said it, I probably did.

Q. Let me show you.

A. I think it is very likely that I said it.

Mr. Reycraft: Page 25 (handing to the witness).

The Witness: Yes.

Q. Now, will you tell me what you mean by "overloaned"?

A. What I meant by "overloaned" at that time was that loans had been expanded to a point where the bank had a reserve deficiency.

Q. What is a reserve deficiency?

A. A reserve deficiency is a position by the bank of legal [fol. 3026] reserves below that required by law.

Q. And does this factor impose a limitation on the total number or per dollar amount of loans which a bank can make?

A. It does in practice, yes. Banks hesitate, naturally, to make loans which will throw them into a reserve deficiency position.

Q. So that this places a limit on the supply of loan funds available from a bank; isn't that correct?

A. Until the bank has corrected its reserve deficiency position, which banks promptly do after that position has been reached.

Q. Is there any limitation on their ability to correct their reserve deficiency?

A. Well, at the present time, no. I don't say what might happen in a period of depression, such as we had in the 30's. At the present time there is no practicable limit to their right to correct reserve deficiencies. For example, there is available to them the very large and active federal funds

market. Secondly, if they are members of Federal, they have access to the federal discount window. If they are neither members of Federal nor choose to act in the federal funds market, they may borrow directly from some of their other correspondent banks. Failing all of those, they may [fol. 3027] liquidate short-term securities or call demand loans. They have all those methods of correcting a reserve deficiency position.

Q. Do the assets of the bank or the deposits of the bank place any limitation on the bank's ability to make loans?

A. Yes, of course.

Q. Will you explain how that occurs.

A. Well, a small bank with a relatively small volume of deposits can only make a relatively small volume of loans, and there is a relationship, of course, between the volume of deposits in a bank and the volume of loans the bank can make.

Q. So that with respect to each bank, its supply of lendable funds is limited, is it not?

A. It is limited in part. It is not entirely limited, because the bank has access to borrowing and also a shifting of assets within the bank from investments to funds available to lending to excess reserves. Banks have quite a play in that.

Q. These are temporary measures, are they not?

A. Generally they are of a temporary nature.

Q. And wouldn't you agree that with respect to every commercial bank there is an upper limit at any particular [fol. 3028] time on the supply of funds that it can lend?

A. Yes, with that margin of play of shifting liquid assets into excess reserves or borrowing which I have previously indicated.

Q. Yes, and what would be the absolute upper limit with respect to a particular bank?

A. Well, I don't know of any. It would depend upon the market for borrowing and their holdings of Government securities which they were willing to dispose of. I can't fix a dollar upper limit.

Q. Would it be limited by their assets, their total assets?

A. Oh, yes.

Q. So that there is an upper limitation?

A. Yes, in a sense.

Q. Limited by their assets?

A. In that sense, of course, as I say, with substantial play. We generally measure a bank's lending capacity by the volume of its excess reserves, and that leads us to the question of the sources of excess reserves available to banks.

Q. You referred yesterday to the alternatives available to borrowers in the Philadelphia area and I take it that with reference to each of these alternatives there is a limit [fol. 3029] on the supply of loanable funds which they have available?

A. Yes, there is a limit; but if you ask me to fix it in dollar volume, I am unable to do so because it depends on the nature and character of the assets of the banks in question.

Q. Yes, but there is an absolute limit of the assets in each case; isn't that correct?

A. Yes.

Q. So that for the Marian Bank, for example, which has assets of $1,096,000, it would hardly be able to lend beyond that amount; isn't that true?

A. That's correct.

Q. And the fact is that it had loans of $197,013 as of December 31, 1960.

Do you consider that bank a very important alternative for borrowers in this area?

A. Not very important.

Q. How about the Sonsitaly; do you think that is a very important alternative?

A. No.

Q. How about the——

A. An alternative.

Q. Pardon me?

[fol. 3030] A. An alternative for smaller borrowers, but if you ask me a relative question, I should say not very important, those two banks.

Q. How about Citizens & Southern?

A. That has been growing rather rapidly of recent years, and I would consider that a reasonably important alternative.

Q. Yes. They have loans at the present time of $2,373,582, as of December 31, 1960.

How about the Pennsylvania Warehousing & Safe Deposit Company; do you think that is a very important alternative?

A. Not very important.

[fol. 3031] Mr. Degnan: Your Honor, we would like to resume questioning on page 135, at the middle of the page, after Mr. Littleton's objection, so that the questions and answers would not relate to the specific question which was objected to, but would simply relate to the figure of 69 per cent, which is a figure of concentration of assets.

Dr. Harris was asked whether or not he thought that 69 per cent of the banking assets in the leading bank would be objectionable. We would like to read three or four questions and answers which revolve around that figure of 69 per cent.

Mr. von Starck, would you proceed to read the answer in the middle of the page right after Mr. Littleton's remark, "Objected to"?

A. Well, we have active competition in various areas of the United States where the lead bank has 69 per cent, for example, of the assets.

Q. And, in your opinion, this is not an undue amount of concentration?

A. A little larger than I would like, perhaps, but not undue and still leading to active competition with the remaining banks.

Q. You would think there would then be sufficient alter-

[fol. 3032] nate sources of credit available so that a satisfactory competitive situation would remain?

A. As applied to Philadelphia, yes, where there are a lot of other banks.

Mr. Price: Would you read the next question, please, and the answer?

Mr. Degnan: "Q. So that you think, in Philadelphia, if one bank had 69 per cent of the bank assets, and there were 14 remaining alternatives, that this would be sufficient so that you would not have an undue effect on competition?

"A. That is my opinion."

The Court: All right.

By Mr. Reycraft:

Q. Now referring to the Second National Bank of Philadelphia, how important an alternative do you think that is?

A. Reasonably important. They do a pretty big business up in the Northeast.

Q. They have $20 million of loans outstanding at the present time?

A. That's right.

Q. And their assets are $40 million, so do you think that [fol. 3033] it is likely that they would go much beyond 50 per cent of their assets in loans?

A. I don't know how likely it would be. Some of the banks in Philadelphia have loans in excess of 50 per cent of their assets.

Q. Do you know any besides Girard?

A. I haven't made the computation. Do you want me to do it?

Q. No. I just wanted to know if you knew of any at the moment.

A. No.

Q. Now, the Frankford Trust also has outstanding $27 million of loans.

That would appear to you to be close to the maximum of loans it would be able to make with its present assets?

A. I couldn't answer that question specifically without further information as to the character of the assets, how much of those they could find it advisable to convert into excess reserves to expand their loan volume. I don't know.

They are capable of expanding their loan volume somewhat. I think that is true of all of the Philadelphia banks.

Q. Based on Exhibit D-29, which you introduced yester- [fol. 3034] day, the average ratio of loans to assets of banks in the $25-million assets class is 41.4 per cent?

A. 44.4.

Q. 25 to 50?

A. Oh, 25 to 50? I thought you said "all banks." I beg your pardon.

25 to 50, 41.4.

Q. So that Frankford Trust is perhaps a little above that average, isn't it?

A. Yes.

I think you will find that most of the banks concentrated

in the larger cities are above this average. The national average includes a very large volume of country banks, where the ratio of loans to total assets is likely to be rather low.

Q. So that Frankford Trust Company is very close to the limit of loans which it would practicably make?

A. Very close to this average. It's above this average.

Q. Do you think——

A. I think it could further expand its loans. I can't say how many dollars it could expand them without, as I say, an analysis of the number of Treasury bills they own or other assets convertible promptly into excess reserves.

Q. Yes.

[fol. 3035] Well, you don't know how much additional loanable funds they may have available, do you?

A. I do not.

Q. Now with reference to Industrial Trust Company, you don't know how much additional loanable funds above $24 million which they now have outstanding is available from that source, do you?

A. I do not know..

Q. How about the Finance Company of Pennsylvinia, which has loans outstanding of $666,000; do you think that is a very important alternative?

A. No.

I am taking your words "very important." I say "no" to that.

Q. Do you think it is a significant alternative?

A. I think it has some significance, but not of large volume.

Q. I assume you would think that the Liberty Real Estate Bank & Trust Company with loans outstanding of $54 million does have some significance?

A. Yes; one of our chief competitors.

Q. Pardon me?

A. One of our chief competitors.

Q. Do you know what amount of funds is available for [fol. 3036] Brown Brothers Harriman for lending in the Philadelphia area?

A. No. I do not. Of course, Brown Brothers Harriman is a branch of the Brown Brothers Harriman of New York.

How much money they actually use in Philadelphia, I

have no knowledge. I have no doubt, however, that they could expand that by calling upon New York and Chicago assets if conditions were favorable to lending here.

Q. Do you think that there is any likelihood that they would shift their lending activities to Philadelphia?

A. If the interest rates made that profitable, I have no doubt that they would do it.

Q. On the basis of your knowledge of the way interest rates operate, do you think it is very likely that they will?

A. Very likely that they will? I have no knowledge of that. I don't know whether it is very likely.

Q. You think, then, it is possible that interest rates ——

A. I think it's possible, but if you ask me whether it's likely or not, I cannot answer it.

Q. So far as you know, they have never done it in the past, have they?

A. I don't know.

Q. So far as you know, they haven't?

A. I have no doubt they operate like any other branch [fol. 3037] institution and utilize their funds in the area where it seems most profitable and where demand is highest.

Q. But you have no knowledge?

A. But I have no personal knowledge of that fact.

Q. Or of how much they now lend in Philadelphia?

A. Or how much, how many dollars are involved; I have no personal knowledge.

Q. Now, Dr. Harris, did you have any responsibility for the preparation of D-15? Did you direct its preparation?

A. Of which one?

Q. Of D-15.

A. Let me see which one D-15 is.

No. I had nothing to do with the preparation of that.

By Mr. Reycraft:

Q. Does Brown Brothers Harriman have its head office in the ten-county area referred to in D-15?

A. No. It has its head office in New York.

Q. So the title of D-15 is not accurate, then, is it?

A. To that extent, no.

Q. The answer is "no"?

A. But they have an "A" there. It says deposits, loans, and lending limit are for the entire bank.

I am speaking from general impression when I assume [fol. 3038] that New York is their head office. I believe it is, but I have had no internal contact with Brown Brothers.

Q. Well, you have been in banking in Philadelphia a long time. You are pretty sure it is New York, aren't you?

A. Reasonably sure, yes.

Q. Do you think it is fair to say that no one outside of Brown Brothers Harriman knows how much of the loanable funds of that bank are available in Philadelphia?

A. I doubt whether anyone outside of Brown Brothers would know that.

Q. Dr. Harris, I show you Defendants' Exhibit No. 22 and No. 23.

Have you seen these documents before?

A. I have.

Q. Dr. Harris, did you direct the preparation of D-22?

A. No.

Q. But you have seen it?

A. I have seen it.

Q. Do you consider that this exhibit is significant in reaching your conclusion as to the concentration of the bank assets in the Philadelphia area?

A. Yes.

Q. Will you state of what significance it was?

A. It indicates that the concentration of banking assets [fol. 3039] in Philadelphia is considerably lower than in a very large number of the other large and comparable areas in the United States, whether you take as a consideration the assets of the lead bank or whether you take into consideration the assets of the five largest banks in the city.

Q. Did you attribute any significance to the relationship between Philadelphia and Ogden, Utah?

A. As an individual case?

Q. Yes.

A. No. This was taken for all reserve and central-reserve cities.

The significance of the comparison would vary somewhat, I suppose, with smaller and larger communities.

Q. By the way, are all the cities on this exhibit reserve or central-reserve cities?

A. The heading says so. I haven't checked it up, but I imagine that they are.

Q. You don't know personally whether they are or not?

A. Personally, I haven't checked it with the list of reserve and central-reserve cities.

Q. You haven't made a comparison, have you, between Philadelphia and Cedar Rapids, Iowa, to analyze the relative concentration?

A. I have made no comparison other than shown here. I [fol. 3040] guess there are less than five banks in Cedar Rapids, Iowa, or perhaps only five, in which case they would own 100 per cent of the assets in that locality.

Q. All you know is what is on this exhibit about it?

A. That is true; all I know in this particular area.

Q. Cedar Rapids?

A. I know nothing about Cedar Rapids other than what is indicated on this chart or this table.

Q. Is that true of each of the other cities on this exhibit?

A. Not entirely so. I know a little bit more about Pittsburgh, for example.

Q. As to the other cities, this would be true?

A. As to the others, I haven't made any investigation of the banking system and situation in those particular cities.

Q. For example, if the five largest banks in Philadelphia were to merge, what change would it make in the relative ranking shown on D-22?

A. It would then fall under D-23, which gives pro forma effect to the merger and would place Philadelphia as 43rd in the table of reserve or central-reserve cities in respect to banking concentration.

Q. Including the proposed merged bank, Philadelphia National-Girard, if the five largest banks after the merger were to merge, would it change the rank on D-23?

[fol. 3041] A. Would you mind repeating that question?

(The pending question was repeated by the reporter.)

The Witness: I assume that it would.

By Mr. Reycraft:

Q. In what way?

A. It would push Philadelphia up higher. Just where, I don't know. I'd have to make the computation.

Q. The exhibit shows, does it, the assets of the five largest

commercial banks as per cent of total assets and gives pro-forma effect to the merger, doesn't it?

A. Right.

Q. So that after the merger the five largest banks, even whether there were one or five, would still have the same percentage, would it not?

A. No, I don't think so.

Now let me see. You asked me after the merger——

Q. Yes.

A. —whether you there included the next five largest banks?

Q. No.

A. That would add one bank to this list.

Q. No, include five; after the merger, the five largest.

A. Well, after the merger the five largest is shown here [fol. 3042] at 83.82 per cent.

Q. So that after the Philadelphia National and the Girard were to merge, if the then five largest banks in Philadelphia were to merge, the concentration ratios would be precisely the same, would they not?

Mr. Littleton: I am going to object to that on the same ground as before.

The Court: I will sustain it. We are dealing with one merger, not five.

By Mr. Reycraft:

Q. My question, sir, is if the five largest banks after the merger were to merge, they would still have 83.82 per cent of the total assets of commercial banks in the Philadelphia area, would they not?

The Court: They can be added up, but I will permit it.

A. They would, but they would no longer fit into this table because this table is talking about——

Q. They would not fit under the title; right?

A. No.

[fol. 3043] Q. They would not fit under the title; isn't that correct?

A. No. That's what you say——

Q. But their concentration would be the same?

A. The total of their assets would be the same as the total assets prior to the merger.

Q. Dr. Harris, you testified yesterday to the existence of some competition for checking-account services. You indicated that you considered postal money orders and savings-bank money orders to be competition for checking accounts; is that correct?

A. They are alternative methods of paying bills by check, yes.

Q. Do you consider them significant?

A. I have no figures on volume. Probably they are not very significant.

Q. Do you think that a commercial business could operate by using postal money orders and savings-bank money orders to carry on its business?

A. No, no. That would be limited to individuals who wished to pay occasional bills by check or the equivalent of a check—a postal money order or savings-bank money order.

Q. I believe you testified yesterday, Dr. Harris, that you thought that an increase in the interest rate on savings deposits of ½ of one per cent would not induce people to [fol. 3044] walk across the street; isn't that correct?

A. That is apparently the fact, although it is a little surprising to me.

Q. I believe there is some basis for the inference from your testimony that you think, however, that people will send their deposits to California on the basis of a change in interest rates?

A. A few have done that, so they are tempted at 4½.

If you ask me at exactly what higher level people will begin to be tempted, that's a somewhat speculative matter, and I can't answer it with great accuracy.

Q. You can't——

A. I can only say that apparently a half-per-cent margin in the last 50-year history of Philadelphia has not substantially influenced the flow of savings, but there is current evidence that a 4-per-cent rate offered by federal savings and loans has been sufficient to encourage some shifting of savings from the commercial banks into the federal savings and loan associations.

Q. Do you have any information on the quantity of deposits shifted to California savings and loan associations?

A. No, I have not.

Q. Dr. Harris, is it a fact that if a Philadelphia bank or any bank makes substantial loans outside of its immediate [fol. 3045] geographic area, the result is a lower volume of loanable funds available in its area?

A. That is of course possible momentarily.

Q. Would you explain that.

A. Yes. I have no doubt in my own mind that when Philadelphia banks make loans outside the territory or even to some extent within the territory, that the borrowers who borrow that money may be intending and a substantial number of them will be intending to pay bills outside the City of Philadelphia. To some extent, therefore, funds will at the moment flow from the City of Philadelphia elsewhere. At the same time, however, and while I am sitting here talking, no doubt borrowers in Chicago are borrowing from their local banks to pay bills for goods bought in Philadelphia. There is a constant inflow and outflow of funds of that kind. The volume of it measured by Federal Reserve clearings runs into the billions a day. It is a process which is constantly going on, and it is a necessary process to the economic welfare of the country, and it was to facilitate the ease and speed and cheaper transfer of funds nationally, one of the reasons why the Federal Reserve System was formed and organized.

It would certainly be an enormous economic blow to the [fol. 3046] country if anything were done to check that ready flow of funds from one area to another in accordance with economic activities and demand for funds. It would result in a reactionary localism, a theory of keep your money at home, which would be a paralyzing blow to the American economy.

Q. So that if loans are made outside the area, for example, by Philadelphia National Bank or Girard Trust Corn Exchange, the demand for loans in this area would have to be fulfilled by some other source; is that right?

A. You mean on the day, for example, that the loans were made? These are continuous procedures. All these loans being made are repaid, and there is an inflow of funds from loans made elsewhere which balances it. Not only that, but

it is by no means necessarily true that loans made outside will result in any net outflow of funds. In fact, figures furnished by the Philadelphia National Bank in one of their exhibits indicate that in their 15 or 18 larger lines—I forget the exact number—the average for the year 1960 showed $103 million of deposits as against $42 million of loans.

Q. Yes. Is that the basis for your conclusion about the ratio of loans to lines and deposits?

A. That is the only factual information along that line [fol. 3047] that I have.

Q. Do you have any other factual information on the ratio of loans to lines?

Mr. Littleton: He was about to finish that other answer, Mr. Reycraft.

Mr. Reycraft: Go ahead.

The Witness: What I was going to say probably is the answer to Mr. Reycraft's new question. I say I have no other factual information of a statistical nature as to the ratio of deposits to loans.

Q. Other than D-26?

A. That is correct.

Q. And that is the factual information on which you based your conclusion?

A. That plus my general knowledge of banking practice as contained in banking texts and the material which I have used for 40 years, which has been also along that line.

Q. Has it been along the same percentage lines, sir?

A. Oh, no, I didn't work it down to actual percentages.

Q. You are not referring now to any statistical information that you have access to, are you?

A. I am referring to my general knowledge of the flow of funds in banking activities in the United States.

[fol. 3048] Q. As far as any specific facts are concerned——

A. As far as any specific percentages are concerned, I am relying primarily upon this exhibit.

Q. Will you refer to the third page of D-30 and direct your attention to Category 5, Commercial and Industrial Loans.

A. Yes.

Q. Can you tell me, sir, what percentage that category constitutes of the total loans of the two banks?

(No answer.)

Q. It is about 53 per cent, I will tell you. Would you agree that that is right?

A. Wait. Which column are you referring to? The total?

Q. Yes, the total of the two banks, 287.6 million dollars as a percentage of 541.9 million, which is the gross loans as of September 21, 1960.

Mr. Littleton: Wait a minute. You are talking about the four-county area.

The Witness: 287.6 million is the total of loans in the four-county area of the two banks.

Mr. Reycraft: That is right.

The Witness: 214 million is the total of loans outside the four-county area of the two banks, and total loans, including [fol. 3049] both of those categories, are listed as 502 million.

Q. Will you agree that the commercial and industrial loan category is the most important category for commercial banks?

A. Yes.

Q. Can you tell me what competition is for loans of this type?

A. It depends on the size of the loan. If by competition you are referring to the number of alternative sources to which borrowers could go to obtain their needs——

Q. I am talking about the sources other than commercial banks.

A. Oh, other than commercial banks?

Q. Yes.

A. Some of the very large commercial loans would be shared by pension funds and insurance companies today.

Q. How large is very large in your definition?

A. Oh, $500,000 and over, let us say. I am pulling that out of thin air. I can not give you an exact figure.

Q. How about the categories under $50,000? What is the competition for commercial banks?

A. For commercial loans under $50,000?

[fol. 3050] Q. From non-bank sources.

A. Very little competition other than commercial banks, except for certain of those loans that might conceivably be secured by accounts receivable, in which case there would be competition with sales finance companies.

Q. Is that important competition?

A. I can't give you the figures. They make a substantial volume of loans in that area, yes.

Q. In the category of $50,000 to $500,000 what is the competition from non-bank sources?

A. The same sales finance companies, and you might get some of the life insurance and pension funds interested in that category as it approaches $500,000.

Q. Would you agree that that competition is relatively insignificant?

A. I don't like the words "relatively insignificant." It is of course not nearly as important a competition as the competition with other commercial banks.

Q. As a practical matter, the sources you have referred to other than commercial banks are a minor source of funds, are they not?

A. In that particular field relatively minor, yes.

Q. And for $500,000 and over what is the competition?

A. Well, I think you would get a little more competition [fol. 3051] there from term loans taken by life insurance companies, for example.

Q. What is the practice of life insurance companies with reference to the length of time they can lend?

A. They are willing to take longer term loans than banks generally. It is not unusual, for example, in a term loan, to have the lower or shorter maturities taken by a bank and the longer maturities taken by a life insurance company.

Q. Is it usual for life insurance companies to make short-term commercial loans?

A. Not to any extent in this area.

Q. And with reference to Category 6e "Loans to Individuals—Single Payment," what is the competition for commercial banks of loans of this type under $50,000?

A. Single-payment loans?

Q. Yes.

A. Well, there you run into a class of loans which the Federal classifies in a sense as consumer lending, even though on a single-payment basis, and you would get the various agencies in the under $50,000 class which make direct loans to consumers, the number which I previously mentioned—small loan licensees, consumer credit companies.

[fol. 3052] Q. Do they make single-payment loans?

A. Yes, some.

Q. An insignificant amount?

A. I haven't seen the comparative figures.

Q. You have had an opportunity to observe banking and lending practices over a long period of time, haven't you? Don't you have an opinion as to whether the amount of single-payment loans to individuals under $50,000 by sources other than commercial banks is significant?

A. My opinion would be that it would not be very significant.

Q. With reference to loans to individuals, single-payment, $50,000 and over, what is the competition?

A. Well, of course, this does not disclose just exactly what the purpose of it is for. Some of them may be the same thing as commercial and industrial loans, because a lot of commercial undertakings are carried on by single individuals. If you are talking now about an individual who is not in business, who is borrowing on a single-payment loan from a bank of under $50,000, some again may fall in the consumer category.

Q. Referring now to $50,000 and over.

A. Oh, $50,000 and over, then it wouldn't fall in the consumer category. I thought you were talking about under [fol. 3053] $50,000.

Q. What would the competition be for loans in that category, that is, $50,000 and over?

A. Well, depending again on the character of the loans, and this I didn't mention: If the loan was for the purpose of buying or carrying securities, they might get them from brokers.

Q. Now, there is another category, is there not, No. 3, which is "Loans to Purchase or Carry Securities," and assuming these are correct, they would not be included?

A. Then it would not be included under that. I think there would be comparatively little competition from outside institutions on loans to individuals on a single-payment basis.

Q. Can you think of any financial institution other than commercial banks to which an individual could go for a loan of $50,000 or over?

A. For over $50,000, a loan to an individual on a single-payment basis? At the moment I can't think of any other

source from which an individual would be likely to obtain it except other individuals.

Q. Will you refer to Category 2b, Dr. Harris, and can you tell me what type of financial institutions that you know of are included within this category?

[fol. 3054] A. Loans to other financial institutions would be loans to finance companies, and, for example, loans to federal savings and loan associations, loans to credit unions. I am mentioning the loans to other financial institutions which we make in our bank.

Q. Why do these institutions borrow from commercial banks?

A. In other to expand their lending activities generally.

Q. By the way, do these financial institutions, to your knowledge, maintain checking accounts with your bank?

A. They do.

Q. Do you think, as far as you know, that all of them that you are familiar with have checking accounts with one or more commercial banks in this area?

A. I would certainly think that was probable.

Q. Dr. Harris, do you have a knowledge of the interest rates which small loan companies charge on the loans which they make?

A. In Philadelphia, in Pennsylvania, yes. Practically all of them today, according to statistical evidence that I looked up, are charging the maximum rate, which is 3 per cent per month for the first $150 of the loan, 2 per cent per month for the amount by which the loan exceeds $150 and does not [fol. 3055] exceed $300, 1 per cent a month on the amount by which the loan exceeds $300 and does not exceed $600, and simple interest at 6 per cent for any amount in excess of $600.

Q. On an annual basis what are those interest rates?

A. Well, that depends again on the size of the loan.

Q. Well, would you give it to us for each category.

A. If the loan were under $150, the annual rate would be 12 times 3 per cent.

Q. 36?

A. Yes, correct.

Q. And between $150 and $300 would you be kind enough to make the same computation?

A. 24.

Q. And over $300?

A. 12.

Mr. von Starck: May I interject, Your Honor?

We also have a note from Dr. Harris with regard to the testimony at this point which I think might be relevant, if I would be permitted to read it.

The Court: Very well.

Mr. von Starck: He said:

> On pages 188 and 189 I think I am in error in stating [fol. 3056] the annual rates for small-loan licensees. I said the same thing Warren Smith said, and I think we are both wrong.
>
> On further thought, I believe that 3 per cent per month is not the same as 36 per cent per year. The 3 per cent per month is paid on declining balances so that the annual rate would be less than 36 per cent of the original amount of the loan.

Mr. Reycraft: I object to that. It seems to me that 36 per cent is the effective interest rate, and I don't think it can be corrected in that fashion.

The Court: Don't worry. Leave it in. If a man is paying $50 a month and he pays 3 per cent, $4.50 the first month, he is not going to pay that much again.

Mr. Reycraft: The point is that that is an annual rate of 36 per cent.

The Court: It is an annual rate, but if he is going to pay it off in three months, he doesn't pay the equivalent of 9 per cent on the sum total.

Mr. Reycraft: I agree with that, and I don't care on that basis.

The Court: I don't think it is important to erase that. Do you?

Mr. von Starck: Do you want to have this marked, sir?

[fol. 3057] The Court: No. Don't bother with it.

[fol. 3058] Q. Thank you. How do these rates compare with those available from commercial banks?

A. They are higher.

Q. Do you have any information as to what rate is charged by Broad Street Trust, for example, for loans of this type?

A. Yes, our customary rate is $6 per hundred per year discounted.

Q. What is the effective interest rate of this?

A. Well, it depends on how soon they start the repayment, but it would work out at about 11.9 per cent on unpaid balances.

Q. And do your interest rates change as the loans go higher?

A. We charge that rate up to $3500, in the main, for installment loans repayable. Understand, we make a lot of loans to small businesses at a lower rate than that, that may be repayable on the installment plan. I was talking particularly about consumer credit.

Q. Dr. Harris, I gather from your testimony that you think Philadelphia needs a bigger bank; is that correct?

A. That is true.

Q. Do you think it needs more than one?

A. Well, I haven't given any serious consideration to that. [fol. 3059] I thought only of the need for this bank.

Q. You don't have an opinion as to that?

A. I don't have an opinion as to whether it needs two more banks of the same size or one more.

Q. You indicated one of the advantages which would result from the size. You said:

> "One effect of size is the ability to acquire a personnel and build up an organization which is skillful in meeting the advisory needs of small business."

That is on Page 81.

You think that size gives a bank an advantage in this area; is that correct?

A. Yes, I do.

Q. Would you say that it gives it an advantage over its competitors in this respect?

A. To a slight degree, yes.

Q. To the degree that it is enabled to improve the quality of its personnel, to that degree it has an advantage; is that right?

A. I think so.

Q. In your testimony on the geographic scope of the various markets you referred to, can you tell me what factual data you relied upon?

[fol. 3060] A. I relied very largely upon evidence which has been presented from time to time before the Banking Board by the various banks as to the area of the markets surrounding their branches from which they expected to obtain the bulk of their business. That is a bit of information which is furnished by every applicant and testified to in hearings before the Board.

Q. The information that you consider in your capacity with the State Banking Board is exclusively that relating to the establishment of branches, is it not?

A. That is true as far as the Banking Board experience is concerned.

Q. Yes. Now, in reaching the conclusion which you testified to here yesterday did you rely on any other data?

A. My general knowledge of banking activities, derived in part from my service of 20 years with the Broad Street Trust and contact with bankers arising out of my teaching over 40 years in that field.

Q. Did you rely on any statistical data?

A. Not specifically. I had, of course, seen this information as to the source of funds in the four-county and outside the four-county area. That is all the statistical information I had seen. This exhibit which we were talking about just a [fol. 3061] few minutes ago. I forget the number of it.

Q. You are referring to statistical data which is in the record of this case?

A. Yes, D-30, I think. That was the only statistical information.

Q. And that information, plus the information which came to you with reference to the branch banking, represents the factual basis for your conclusion; is that right?

A. That is right.

Q. Dr. Harris, yesterday you testified, and I will read you a question and answer which appeared at page 94.

"Q. Are there any other sources of competition?"

You were referring to competition for loans on real-estate mortgages. Your answer, which I will read, was as follows:

"A. Individuals, of course. In fact, individuals, I think, hold more mortgages than any single one of the institutional agencies in question."

Could you give me the source of your information on this subject?

A. Well, there are numerous sources. One is Federal Reserve bulletins, in the pages in which they recite real [fol. 3062] estate credit, in which they have a category, "Individuals."

I don't have a Federal Reserve bulletin with me.

Q. And you did mean to say that individuals hold more mortgages than any single one of the institutions in question?

A. That was on recollection. They hold a very large volume of mortgages, surprisingly large.

If I have an opportunity to consult a Federal Reserve bulletin I will be very happy to try to verify that statement for you.

The information appears in other publications, like the Savings and Loan Handbook or Fact Book for 1960, which gives other sources of mortgage holdings in the United States.

Federal Reserve, I believe, reports it regularly under headings of real-estate credit. I think so.

Q. Do you have any information on this as to the Philadelphia area?

A. No.

Q. Are the Federal Reserve statistics broken down by areas?

A. I think not.

[fol. 3063] Mr. Reycraft: That's all.

Redirect examination.

By Mr. Littleton:

Q. Doctor, just one or two questions.

Earlier this morning you indicated that under the law the usury laws didn't apply to corporations; therefore, there is a wider variation in the interest rates that can be charged corporations.

Usury laws do apply to corporations, do they not; it is simply that they cannot under the law plead usury; isn't that so?

A. That is a fact.

Q. And you were referring to the law.

What, in your experience, is the fact?

A. A very few loans to corporations are over 6 per cent.

Q. Now, Mr. Reycraft questioned you at length about the upper limit on the amount which a bank can lend.

The total that any bank can lend—suppose this merged bank should attempt to impose its will on the financial situation by increasing its service charges or any other way; what would happen to the deposits in that bank?

A. I am inclined to think that some portion of them would flow to other banks.

[fol. 3064] Q. And what does that do so far as the lending capacities of the other banks are concerned?

A. It would increase the lending capacities of the other banks and reduce the lending capacity of the bank from which the deposits flowed.

Q. Again, D-30, Mr. Reycraft asked you some questions about the third page. He asked you about Category 5, competition for commercial and industrial loans.

Would you consider factors to be competitors of the commercial banks in any category of commercial and industrial loans?

A. To some extent on loans secured by assigned accounts receivable.

Q. In other words, in addition to finance companies, you would have to add that?

A. That's right; you would add factors to finance companies.

Q. And on loans to individuals single payment, which is Category 6e, are insurance companies competitors of commercial banks?

A. Yes.

Q. Are there any other competitors besides——

A. Yes. I overlooked a very important competitor in that field. I can only apologize for it.

[fol. 3065] That is life-insurance companies on loans on the cash-surrender value of life insurance, which is very extensive and constitutes quite a competition with bank loans on the cash-surrender value of life insurance.

They are customarily personal loans to individuals and single payment.

Q. Did I understand you to testify (I think you did) that

finance companies were competitors on single-payment loans to individuals up to a certain amount?

Mr. Reycraft: I object because I don't think he testified to that.

By Mr. Littleton:

Q. Did you not?

A. I don't think I did.

Q. What was it, small loan companies?

Mr. Reycraft: I object to leading him.

The Witness: Single-payment loans?

The small-loan companies lend almost invariably, on an installment-repayment basis, and so do the finance companies primarily.

Mr. Reycraft: Did Your Honor sustain the objection?

[fol. 3066] The Court: I did. The answer may be stricken.

Mr. Littleton: Mr. Price?

By Mr. Price:

Q. Dr. Harris, you spoke about the flow of money from one area to another in connection with your statement that the making of a loan by a Philadelphia bank to some borrower outside of Philadelphia didn't necessarily diminish the available cash in the Philadelphia area by the amount of that loan.

Is that flow of money a constant phenomenon?

A. It is a constant phenomenon, occurring every business day in the banking world, and indicated by the huge volumes of daily clearings, both at Federal and at individual clearinghouses within the large cities.

[fol. 3067] Q. There are corresponding loans made by national institutions outside of Philadelphia to Philadelphia borrowers, are there not?

Mr. Reycraft: I object to the form of the question.

By Mr. Price:

Q. Now will you tell me whether that is a part of this flow that you spoke about?

A. It may very well be. Certainly, there are Philadelphia

businesses that borrow in New York, for example, quite a number of them; and they then spend the money that they borrow and they may spend it in Philadelphia, they may spend it out of Philadelphia.

Q. Will you refer to page 3 of Exhibit D-30?

A. Yes.

Q. I call your attention to the figures at the bottom line, gross loans under the total outside of the four-county area and in the four-county area.

In the four-county area it is $541.9 million?

A. Yes.

Q. Outside the four-county area, $429 million?

A. Yes.

Q. Would you consider that that $429 million represents any permanent diminution of the capacity of these two [fol. 3068] banks to lend money in Philadelphia?

A. No.

Q. Will you turn to page 2 of that same exhibit, and I call your attention to the two figures, total demand deposits in the four-county area, $837 million; outside the four-county area, $462 million.

Is that a part of this money flow which you are speaking about?

A. Yes, a local flow, I mean within this narrow area. It certainly indicates that deposits originating in the four-county area exceed the volume of loans as of the same date made to individuals outside the four-county area.

Q. And the deposits originating outside the four-county areas of $429 million represent money coming in in the way that you have described?

A. $462 million, I have here.

Q. $462 million, I am sorry. I gave you the wrong figure. $462 million?

A. Yes.

Q. On page 2, deposits originating outside the four-county area, is that not part of this money flow that you are speaking about?

A. Yes. They are funds available to the Philadelphia banks for lending purposes inside or outside the four-county [fol. 3069] area.

Q. But originating outside?

A. These originate outside, yes.

Q. Will you turn to D-27, which indicated growth over the period mentioned, 1945 to 1959, of various institutions. Have you that in front of you?

A. Yes. I have.

Q. Fundamentally, what is the reason for the growth of these institutions shown here?

Have you any opinion as to the reason for the very much larger rate of growth of these financial institutions other than banks?

A. Well, a part of the growth of all of them, of course, is due to the general growth in economic activity, population, gross national product, and so on in the country.

As far as the separate rates of growth are concerned, there has been some debate as to why, for example, savings and loan associations have grown so rapidly in relation to banks. It has been attributed in some writings to more active management and pushing of the associations, better advertising.

Q. What reference has it or what significance has it with reference to the demand for the various services which these other institutions now offer?

[fols. 3070-3071] A. Well, undoubtedly there must have been a very substantial demand for their services to bring about this rate of growth.

The Court: Just a moment. How many more pages in that deposition?

Mr. Price: Seven more pages including this one.

The Court: Well, let us finish tomorrow morning. I have an injunction hearing set for 4:00 o'clock. We will take a five-minute recess, then I will call the injunction hearing.

(Adjourned at 4:00 o'clock P.M. until Tuesday, July 18, 1961, at 10:00 o'clock A.M.)

[fols. 3072-3073] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

EIGHTEENTH DAY

Philadelphia, Pa., July 18, 1961.

Before Hon. Thomas J. Clary, J.

. . . . . .

[fol. 3074] (The reading of the deposition was resumed by Mr. Price and Mr. von Starck.)

Q. What has been your observation with regard to the furnishing of services when a demand therefor exists; and I am speaking, of course, in the financial field only?

A. Do you mind repeating that?

(The pending question was repeated by the reporter.)

The Witness: Where a demand exists, my general observation indicates to me that it is met by appropriate financial institutions.

By Mr. Price:

Q. And so far as Philadelphia is concerned, demand that may not be met by local institutions is possible to be met by those outside, is it not?

Mr. Degnan: I object to the form of the question. This is a leading question.

Mr. Price: This is cross-examination.

The Court: Read the question back, Mr. Schuman.

(The last question was read by the reporter.)

[fol. 3075] The Court: It is objected to, the objection is overruled, and he may answer.

A. Yes.

Mr. Price: That's all, thank you.

By Mr. Littleton:

Q. Just one more question:

Doctor, will you look at D-22, about which Mr. Reycraft asked you, the list of reserve and central-reserve cities?

He questioned you whether you made any study about Cedar Rapids, Iowa, and something about the significance, if there was any significant relationship between the situation in Philadelphia and Cedar Rapids, Iowa.

Let me ask you your opinion as to whether the Philadelphia banking situation is more significantly related to other reserve cities and central-reserve cities than it is, we will say, to Whitefish Bay, Wisconsin, or Elk Point, South Dakota?

A. Yes.

Mr. Littleton: Thank you. That's all.

Mr. Reycraft: I have a couple of questions.

Cross-examination.

By Mr. Reycraft:

[fol. 3076] Q. Dr. Harris, does the growth of savings and loan associations which was pointed out to you indicate that there was a large demand which is not being met by commercial banks?

A. Of a large demand which was not being met by commercial banks or other lending institutions.

We had, as you know, very active real-estate construction, a very active residential real-estate construction market in the ten years since the close of the Second World War, which has required a very large volume of real-estate financing.

All institutions that lend on real estate have shared to some extent in that, but the federal savings and loan associations have achieved the highest share of it.

Q. The commercial banks have not been able to meet fully the requirements of the communities in this regard; is that correct?

A. Well, they haven't met them. When you say they haven't been able to, that's another conclusion.

Q. They haven't done it?

A. They haven't done it fully.

Q. That's right.

Now, Dr. Harris, I understood you to testify yesterday [fol. 3077] that you had been contacted by both Mr. Littleton and Mr. Price, and had been asked to testify by them as a witness in this case. Is that correct?

A. Well, actually, Mr. von Starck came to see me. I understood that he was talking on behalf of both Mr. Price and Mr. Littleton.

Q. So you are a witness for both banks, aren't you?

A. That has certainly been my impression.

Q. I would like to direct your attention again to your answer as to individuals holding more mortgages than any single one of these agencies and also direct you to the March, 1961, issue of the Federal Reserve bulletin, page 341; and I direct your attention to the figures for the year 1960, which show mortgage debt outstanding by type of property mortgage and type of mortgage holder.

Will you tell me what it shows under all holders?

A. All holders, the volume of mortgage debt as of the last figure is, as of December of 1960, $206½ billion.

Q. For all financial institutions?

A. All financial institutions, $157.6 billion; selected federal agencies, $11.2 billion; individuals and others, $37.7 billion. All holders, $193.4 billion.

[fol. 3078] Q. Do you wish to correct your answer in any way?

A. Well, of course, this doesn't indicate whether my answer was correct or not. This lumps all financial institutions.

Now, actually I may have been thinking more primarily of farm mortgages, where the individual holders exceed either the Federal Land banks or the insurance companies. For all properties, to say that individuals at $37.7 billion exceed any single one of the financial institutions may be incorrect.

Q. Thank you.

A. This chart doesn't indicate; it lumps all the financial institutions together.

Q. But you now believe that your answer may have been incorrect?

A. Yes, it may have been. I will change it and say that it represents a substantial volume of the mortgage debt.

Q. About 18 per cent; is that right?

A. I didn't do the computation. If you did, I will accept it.

Q. Mr. Reed did it.

A. Very likely, if you will look far enough, you will find a table breaking those financial institutions down into indi-
[fol. 3079] vidual categories.

Q. We have found it.

On Page 342, will you tell me what the table indicates for life-insurance companies and savings and loans?

A. Yes. For life-insurance companies—the date we had before was December, but this gives one later month, so we will use December again. I think that was December. It doesn't make much difference.

Loans acquired were $616 million—that's loans acquired. Now, before we had loans held.

Shall I look through this?

Q. Yes, sir. You satisfy yourself.

A. Because loans acquired would be a little different category, far less, for example, than loans held.

Loans outstanding, I see later on.

Loans outstanding of life-insurance companies, as of December, 1960, was $41,798,000.

Q. How does that compare to loans by individuals?

A. Well, loans by individuals was, as I think, $37 billion; so slightly I was in error.

Q. And as for savings and loans?

A. Savings and loan associations, loans outstanding at the end of the period was $60 billion; again, higher than indi-
[fol. 3080] viduals, substantially higher.

I was simply speaking from memory and my memory was faulty.

Mr. Littleton: Just one question.

By Mr. Littleton:

Q. Mr. Reycraft elicited from you the assurance that you are not hostile to Mr. Price's client. You are not hostile to the Department of Justice, either, are you?

A. Are you asking me a legal question or a personal question?

Personally, no.

Q. Nor to the Comptroller of the Currency, are you?

A. I seek only the truth.

Mr. Reycraft: So do we all.

Mr. Littleton: Thank you very much

[fol. 3081] WISTAR H. MACLAREN, resumed.

Direct examination. (Continued)

Mr. von Starck: Your Honor, during last week Mr. Reycraft asked me informally for a list of the names of the customers of the Philadelphia National Bank appearing on D-26, which, as you know, were merely numbered, and I gave him informally a list of those names, with the expectation that the names would not be used in the examination but that the numbers would be used, and I now supply you, sir, with a similar copy.

Mr. Reycraft: I should state, Your Honor, for the record, that some of the facts set forth in D-26, as to which the exhibit which has just been marked is in further explanation, may require a little more detail, so that while I am not asking at this point to refer to any names, I don't want to be foreclosed.

The Court: You are not being foreclosed in anything, Mr. Reycraft. However, before the names appear in the record, I would like an explanation of your reasons why they have to be.

Mr. Reycraft: Yes, I understand that.

By Mr. von Starck:

Q. Mr. MacLaren, during the last week did you have an opportunity to review Exhibit D-26, the information shown [fol. 3082] thereon?

A. Yes, I did.

Q. What did you find, sir?

A. We found both in the deposit category and in the loan category there had been some omissions.

Q. Have you prepared a revision of Exhibit D-26?
A. Yes, I have.

Mr. von Starck: I ask that this new sheet, which has the same title as D-26, be marked for identification as D-26 revised.

(One-page document headed "Excess of Average Deposits Over Average Loans of all PNB Customers with Credit Lines of $8,000M or More" was marked Exhibit D-26 (revised) for identification.)

Q. Calling your attention D-26 revised, will you tell us if the customers shown thereon by number are all of the customers which had lines of $8 million or more during the year 1960?
A. Yes, they are.
Q. Will you explain how you have three customers with lines which exceed $8 million?
A. The three customers whose lines exceed $8 million are exceptions, where the legal limit is exempted from the requirement of one or more of the——
[fol. 3083] Excuse me, can I back up on that?
The amounts in excess of $8 million are exempted from the requirements of being included within the lending limit by one or more of the exceptions set forth in Revised Statutes of the United States, Section 5200. More specifically, in one of these cases there is a Government-guaranteed loan involved, which is excluded. In another case it is the financing, as I recall, of certain foreign goods through acceptances, if I recall correctly, which is excluded by exception, and in the third case, No. 19, customers paper purchased where the obligors, or the individuals, primarily, rather than the company, are excluded.
Q. Well, now that you have mentioned customers paper, is that the meaning of the letters C.P. alongside three of the loans? I am speaking specifically of the Nos. 19, 24, and 27.
A. That is the meaning, yes.
Q. Why have you included customers paper under loans for that year?
A. We have included the customers paper despite the fact they are not the direct obligation of the company listed, because we arranged to purchase that paper because of our

relationship with the main company. If it weren't for our [fol. 3084] close associations with these companies, I doubt whether we would normally purchase the customers paper.

Q. Are the deposits for these customers related to the borrowings on the customers paper?

A. I don't think you say they are directly related. I think rather you would say, for customers where we have large deposits arising either out of loan or other services, then, on request, we will purchase customers paper from those companies. An indirect relationship, yes.

Q. On July 5 you were testifying, as I recall it, that the fact that the deposits were 200 or more per cent of the loans is based in part, in large measure, on the fact that the bank offers services, performs services, to these customers. Do you recall that?

A. Yes, I do.

Q. Could you be a little more specific and tell the Court what type of services the bank performs which justifies these large deposits?

A. In addition to the loan services, and this won't be a complete list but may be a typical list, there would be check collection service for these customers, where we handle the checks that are processed for them. This involves the use of no bank funds, you might say, but we get the compensating balances to cover the activity involved in that. It [fol. 3085] will cover also payroll accounts for these companies. It will cover in some cases corporate trust services. In some cases there will be lock box services, account reconciliation services, and various others of that general nature.

Q. How many of these 27 customers have their main offices outside of the four-county area?

A. Of the 27 customers, 13 have their main offices outside the four-county area, and of those 13, 2 are in nearby counties, one Camden County, New Jersey, one New Castle County, Delaware.

Q. And the 11 are far removed?

A. The other 11 are removed, yes.

Q. You show here an excess of approximately $52 million of deposits over loans. Is that sum of approximately $52 million after deduction of reserves available to the other customers of the bank?

A. Yes, it is. It is available for lending or investing.

Q. Why have you used the results of an entire year in this study rather than a comparison of one day, which has been used in other parts of the case?

A. We feel that if you are looking at the relationships of loans and deposits for any individual customer, a one day may or may not be misleading. In other to make sure [fol. 3086] that we are taking a fully representative sample when we are looking at these 27 customers, we have taken the average deposits and the average loans for the whole year 1960.

Q. Well, does the bank customarily judge the value of a particular customer on the basis of a period of experience rather than one day of experience?

A. Yes, very definitely so. It might be shorter than a year; it might be longer than a year, even.

Q. Are these top line customers the type which the merged bank will hope to obtain more of if the merger is consummated?

A. Very definitely so, yes.

[fol. 3087] Q. Are these same customers the type which normally have a national choice in banking relationships?

A. Normally customers of this size would have, yes, a national choice as to where they will do a substantial portion of their deposit business, and probably all of their loan business.

Q. Are you familiar with Exhibit D-30, which was identified during Dr. Harris' testimony?

A. Yes, I am.

Q. Was Exhibit D-30 prepared under your supervision?

A. In so far as the figures for Philadelphia National Bank were concerned, yes.

Q. In general, how were those figures obtained?

A. These figures were obtained, you might say, from two sources in the deposit area. The figures for the $10,000 and over category were obtained from the card records that were used in some of the Government exhibits. For the deposit figures under $10,000, they were obtained from the application of sampling data which also had been furnished to the Government and, as I understand, has been included in Government exhibits, the application of those samples to the total dollars under $10,000 to arrive at the total dollars shown on the exhibits.

As far as loans are concerned, the same thing with the [fol. 3088] breaking point of $50,000.

Q. For deposits over $10,000, did the banks prepare IBM cards with information as to each such deposit?

A. That is correct; yes.

Q. And did they prepare IBM cards for each loan over $50,000 as of September 21, 1960?

A. Yes, they did.

Q. So that the information shown hereon, as for all deposits over $10,000 and all loans over $50,000, is based upon actual figures; is that correct?

A. Actual figures transcribed onto these IBM cards.

Q. Let me first of all ask you, in view of the fact that the Government has introduced certain exhibits showing business done inside and outside the four-county area, why have you prepared this additional exhibit?

A. There are at least two reasons why we have prepared this. One is to summarize in easy and in convenient form on three sheets all of the information on deposits and loans. A second reason is to show by the various categories indicated here the separate information by category.

Some of these categories were included in the Government figures; some were lumped together, while one or two of them were omitted, as I recall.

[fol. 3089] The purpose here then is to separate out by type of deposit and by type of loan in the categories used for call report purposes, and in some cases breaking those call categories down a little more finely because we feel that the market impacts are more clearly or can be more clearly shown in the breakdowns that we have used in this exhibit.

Q. Now will you turn to Page 1 of Exhibit D-30, which is the amount of time and savings deposits, and just briefly summarize the figures shown there?

A. The figures shown on Page 1 in the aggregate show that the combined bank has $253,900,000 of total time and savings deposits, of which $198,500,000 are in the category of savings deposits of individuals. The balance, as you see, are in the categories 2, 3, 4, and 5.

Turning to the savings deposits of individuals, the last three columns show that for Philadelphia National Bank 5.3 per cent of them are outside the four-county area; for

Girard Trust, 2.6 outside; and for the combined bank, 3.9 per cent.

In the time deposits of partnerships and corporations, 32.4 per cent of the combined bank are outside the four-county area.

In time deposits of foreign banks, 100 per cent are out-[fol. 3090] side.

For domestic banks, 11 per cent are outside.

The time deposits, state and political subdivisions, show 5.6 per cent outside.

Mr. von Starck: Will you mark this D-32, please?

(Document headed "Time Deposits," with attached Schedules A, B, and C attached, was marked Exhibit D-32 for identification.)

By Mr. von Starck:

Q. Do you have before you a copy of Exhibit D-32, entitled "Time Deposits"?

A. Yes, I do.

Q. Will you please explain the relationship between D-32 and Sheet 1 of D-30?

A. D-32 shows on Line 1 the number of commercial banks and the amount of time and savings deposits of individuals, partnerships, corporations, for banks having headquarters in Philadelphia and the four-county area and the ten-county area.

Therefore, the dollar figures on Line 1 include for Philadelphia and Girard the figures in Lines 1 and 2 of D-30. [fol. 3091] In other words, the savings deposits of individuals and the time deposits of partnerships and corporations.

Q. Why have you not broken it down between savings deposits of individuals and time deposits of partnerships and corporations?

A. In so far as Philadelphia National and Girard are concerned, it is possible to get this breakdown. However, for reporting to the Federal or the state agencies on the call reports, there is no breakdown given for other banks, so that when we are making comparisons between ourselves and other banks, these two have to be grouped together.

Q. How many commercial banks with headquarters in Philadelphia are there which accept time and savings deposits?

A. This exhibit shows 13 banks with headquarters in Philadelphia, with a Note 1.

Q. Now, how many such banks are there in the four-county area?

A. There are 40 such banks.

Q. And the total of such a nature is $748 million; is that correct?

A. $784 million.

[fol. 3092] The Court: I am looking at $784 million.

Mr. von Starck: I am looking at $748 million, sir.

I now have the correct copy, Your Honor.

By Mr. von Starck:

Q. And the total of such deposits in the ten-county area of the 116 banks shown there is how much?

A. $1,335,048,000.

Q. Now, to the total of such deposits by commercial banks you have added certain deposits of certain other institutions. Will you briefly explain that.

A. To the deposits of commercial banks in this time and savings area we have added the savings deposits of the mutual savings banks headquartered in the four and ten-county areas, the savings shares of building and loan and savings and loan associations headquartered in the area, and to the extent that we have the information the data from credit unions.

Q. Are the data for mutual savings banks shown on Schedule A?

A. The data on the mutual savings banks are shown on Schedule A, which lists the figures for the individual institutions, yes.

[fol. 3093] Q. And is the source of that Polk's Bank Directory?

A. Yes.

Q. Now, turning to Schedule B, which appears to be the data for savings and loan and building and loan associations, will you explain that, sir.

A. The information for Schedule B is taken from various

sources as shown in the footnotes for the five Pennsylvania Counties, a statistical summary on savings, building and loan associations in Pennsylvania; for the four counties in New Jersey, annual report of the Commissioner of Banking and Insurance; for New Castle County, Delaware, the annual report of the State Banking Commissioner of Delaware.

This shows in the main body of the table the number of institutions and the aggregate deposits are broken down by counties.

Q. Now, will you turn to Schedule C and explain the data thereon for credit unions.

A. Schedule C for credit unions shows in the top part Pennsylvania state-chartered credit unions taken from the report of the Secretary of Banking, showing for Pennsylvania 125 such unions with $23,658,000 capital shares. For Philadelphia there are 30 such institutions and the capital shares are estimated at $5,700,000 as explained in Footnote [fol. 3094] 4, by taking the same proportion of the total that the number of unions in each county bears to the total number of unions in the state.

Q. Were there no figures directly available for Philadelphia or for the other three counties?

A. There were no figures that we could find, no.

Q. And this estimate is based on a pro rata distribution of the capital shares of the total 125 unions in Pennsylvania; is that correct?

A. That is correct, yes.

Q. Now, what are the totals of these deposits for these four types of institutions in Philadelphia?

A. The total deposits in Philadelphia are $3,402 million in round numbers.

Q. And what is the share which the merged bank would have with respect to the total time and savings deposits?

A. 6.7 per cent.

Q. Do you consider that to be a conservative estimate?

A. I do consider it a conservative estimate, yes, partly because of the lack of complete information on the credit unions, partly because we have included, as far as Philadelphia National and Girard and the commercial banks are concerned, time deposits of partnerships and corporations, [fol. 3095] whereas the three other types of institutions do not accept time deposits of partnerships and corporations.

Q. What would be the conservative estimate of the market share of the four-county area?

A. 5.8 per cent held by the Philadelphia National-Girard combined.

Q. And for the ten-county area, what would it be?

A. 4.8 per cent.

Q. Now will you turn to Sheet 2 of Exhibit D-30, which is the amount of demand deposits, daily average for June, 1960, and briefly explain that.

A. On Sheet 2 we have broken the demand deposits into individuals under Item 1, partnerships and corporations under Item 2, foreign banks under Item 3, domestic banks under Item 4, deposits of the United States Government under Item 5, and demand deposits of states and political subdivisions under Item 6.

The total of the deposits for the Philadelphia-Girard combined are $1,300,000,000. Of that total $226 million are demand deposits of individuals, of which 10.6 per cent come from outside the four-county area; $674.4 million are demand deposits of partnerships and corporations, of which [fol. 3096] 29.3 per cent come from outside the four-county area; $23.7 million are the demand deposits of foreign banks, all of which come from outside the four-county area.

Shall I continue or is that enough to indicate?

Q. I think that is satisfactory.

Do you have a share-of-the-market study for demand deposits?

A. No, we do not.

Q. Why don't you?

A. Again, for the same reason that we cannot get for the other commercial banks the breakdown of their demand deposits by location of customer. We know it for ourselves, of course, but we do not know it for the other commercial banks in Philadelphia, nor do we know for other institutions outside the Philadelphia area what demand deposits they derive from within the Philadelphia area.

Q. Dr. Harris, you may recall, testified as to competitive types of investments in relation to demand deposits, such as United States Government securities, commercial paper, and so forth.

Do you have any figures with regard to the extent of the

[fol. 3097] investment in such competing sources for the Philadelphia area or for any localized area?

A. No. We don't know for individual or corporation how much they use these alternate forms of investment for what might otherwise be deposit dollars.

Q. Would it be necessary to know this in order to make a share-of-the-market study?

A. To get a complete share-of-the-market study, yes, very definitely.

Q. Now will you turn to Page 3 of Exhibit D-30, which covers the loan distribution, and explain that briefly.

A. This is the same kind of study as was made on the deposits. You will see Item 1 being real estate loans, Item 2a we have broken down into two parts—loans to domestic banks and loans to foreign banks. The "2a" designation is used for both of those because in call report forms those two are lumped together. We have separated them out because we feel that there is a difference in markets involved between the two.

2b is loans to other financial institutions and so forth on down the line.

Under Item 6, which is the general category for loans to individuals, we have grouped together the installment loans into one figure, under 6a to 6d, and have shown separately [fol. 3098] the loans to individuals, single-payment, under 6e.

As far as the grand totals are concerned, the combined bank has over $971 millions of such loans and the aggregate 44.2 per cent originate outside the four-county area.

The percentages originating outside the four-county area vary, of course, by type of loan, as is shown in the last column on the page.

Q. Will you direct your attention to Item 5, which is commercial and industrial loans, and comment, if you think it is appropriate, on the various percentages shown there for outside the four-county area.

A. We have broken the commercial and industrial loans down into three groups—those under $50,000 each, which represent the group derived from the sample, $50,000 to $499,999, and then $500,000 and over.

It is interesting, as far as the percentages outside the

four-county area are concerned, that within these three size groups as you go upward in size the percentage of loans coming from outside the four-county area increases.

Q. Now, you have deposits based on the average for June, 1960, and loans based on information as of September 21, [fol. 3099] 1960.

Let me ask you first of all, what is the relationship between the average deposits for June, 1960, and deposits for the entire year of 1960?

A. The month of June, 1960, for deposits was a representative month and the averages for June are fairly close to the averages for the year as a whole. I haven't the exact figure with me at the moment.

Q. So that June is fairly representative for the entire year?

A. Yes, it is.

Q. Now, how about loans at September 21, 1960? Are those loans representative of lending for the entire year of 1960?

A. Let me first say that 1960 was a year of record high loan demand in itself, so that 1960 was higher than 1959, 1958, 1957, and so forth.

September 21 for these two banks was higher than the average for the year as a whole. My recollection is that it is approximately $30 million higher than the average for 1960.

Q. And what would $30 million higher be, expressed in percentage terms?

[fol. 3100] A. A little under 3 per cent of the total.

Q. So that am I correct in saying that Exhibit D-30 represents, for 1960, not average loans, but slightly higher than average loans?

A. Yes.

Mr. von Starck: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. MacLaren, referring to D-26 revised, referring to Customer No. 1 on D-26 revised, can you tell me whether that customer's main office is in Philadelphia?

A. Yes. The main office is in Philadelphia.

Q. Pardon me. Go ahead. Did you complete your answer?

A. The main office is in Philadelphia.

Q. With reference to Customer No. 2?

A. Yes.

Q. And with reference to Customer No. 3, where is its main office?

A. Camden, New Jersey.

Q. And Customer No. 4?

A. Baltimore, Maryland.

Q. And Customer No. 5?

A. Wilmington, Delaware.

[fol. 3101] Q. Now, where is the nearest plant which Customer No. 5 has to Philadelphia, to your knowledge?

A. I am not too specifically aware of that type of information about these customers, Mr. Reycraft.

The Court: In Philadelphia, I will tell you; right in Philadelphia.

By Mr. Reycraft:

Q. With reference to No. 6, where is its headquarters?

A. Philadelphia.

Q. Does Customer No. 7, whose headquarters is in New York, also have a plant in or near Philadelphia?

A. Certainly a plant and probably sales offices.

Q. And Customer No. 8 has a business establishment a few blocks from here, does it not?

A. Yes, it does.

Q. And its main headquarters are in New York?

A. Correct.

Q. With reference to No. 9, its headquarters are where, sir?

A. Akron, Ohio.

Q. Do you know where its nearest plant is to Philadelphia?

A. I don't know specifically. I know it has connections here.

[fol. 3102] Q. You believe it does have an industrial establishment in the Philadelphia area?

A. Either industrial or commercial; I am not sure.

Q. And with reference to Customer No. 10, where is its headquarters?

A. Cleveland, Ohio.

Q. Do you know, sir, whether it has any establishment in this area?

A. I don't know.

Q. With reference to Customer No. 11, where is its headquarters?

A. Bryn Mawr, Pennsylvania.

Q. Customer No. 12?

A. Philadelphia.

Q. Customer No. 13?

A. Minneapolis.

Q. Does Customer No. 13 have a business establishment in this area?

A. Of some nature, yes.

The Court: Indeed it does, a big one.

By Mr. Reycraft:

Q. I wonder, Mr. MacLaren, if you would be willing to get for us the information as to the nature of the business [fol. 3103] in quantitative terms, not to identify the company, but so that we can know the importance of the business activity here?

The Court: Do you mean dollarwise?

Mr. Reycraft: Just in dollar sales or anything of that nature.

Mr. von Starck: I doubt if we can get that.

The Court: That particular one that you are talking about has had a tremendous plant in Philadelphia since I can remember.

Mr. Reycraft: This is what I would like to establish.

The Court: I can pretty nearly tell you without you asking the witness.

By Mr. Reycraft:

Q. Customer No. 14 is also headquartered in Philadelphia, is it not?

A. Yes.

Q. And Customer 15?

A. University Park.

Q. No. 16?

A. Philadelphia.
Q. No. 17?
[fol. 3104] A. Philadelphia.
Q. 18?
A. Philadelphia.
Q. 19?
A. New York.
Q. Does 19 have a plant in Philadelphia?
A. In the Philadelphia area, it does, in the four-county area, quite a big one.
Q. A rather substantial plant; isn't that right?
A. That's correct.
Q. No. 20?
A. Philadelphia.
Q. No. 21?

Mr. von Starck: Your Honor, it is not in the four-county area.

The Court: Yes, it does. It has one up in Bucks County.

Mr. von Starck: Oh, excuse me. I was thinking of the ten-county area.

The Court: I have other cases in this court, remember.

By Mr. Reycraft:

Q. No. 21?
A. Winston-Salem.
[fol. 3105] Q. Does it have a plant in the four-county area?
A. I don't know.
Q. No. 22?
A. Philadelphia.
Q. No. 23?
A. Chester.
Q. No. 24?
A. Chicago.
Q. And No. 24 has a substantial business establishment or several in this area?
A. Several, Yes.
Q. Several, and it does a lot of business in this area?
A. Yes.
Q. No. 25?
A. Philadelphia.
Q. No. 26?

A. Philadelphia.
Q. No. 27?
A. Cleveland.
Q. Now, does No. 27 have a plant in this area?
A. I think it has a subsidiary here.
Q. A sales organization or a manufacturing plant?
A. Manufacturing.

The Court: Manufacturing and sales.

[fols. 3106-3107] By Mr. Reycraft:

Q. Manufacturing and sales, and a substantial establishment, is it?

The Court: It is.
The Witness: Yes.
The Court: We will take a ten-minute recess.

(A 10-minute recess was taken.)

[fol. 3108] The Court: May I say, Mr. von Starck, as to No. 19, service was made at an operation of that plant in this district, and I sustained service, so I know that they at least were doing business within the eastern district of Pennsylvania.

Mr. von Starck: Thank you.

By Mr. Reycraft:

Q. Mr. MacLaren, let me ask you, with reference to the first customer, are the lines of credit which are indicated on D-26 revised formal lines of credit?

A. What do you mean, Mr. Reycraft?

Q. Well, I am referring to Dr. Harris' testimony in which he indicated a difference between a formal line of credit and the line of credit that was gratuitously granted by a bank. Do you know the distinction?

A. I wouldn't know the distinction for these customers, no. Mine is of a statistical nature. The actual dealing with the customer is out of my province.

Q. Can you explain the distinction between a formal line of credit and a line of credit gratuitously granted by a bank?

A. Not from my own knowledge, no.

Q. You haven't had occasion to become familiar with that distinction?

[fol. 3109] A. Other than what you recall from what Dr. Harris said.

Mr. Reycraft: Mr. Littleton has refreshed my recollection. It was Mr. Oakes who testified to this distinction, not Dr. Harris.

The Court: Mr. Who?

Mr. Reycraft: Mr. Oakes. His deposition was taken also, Your Honor.

The Court: I haven't heard that yet. I was wondering where I missed it.

Mr. Reycraft: You didn't miss a trick.

By Mr. Reycraft:

Q. Do you know what a formal line of credit is, Mr. MacLaren? Was your answer to that no?

A. No, I think I know what a formal line of credit is, yes.

Q. Will you tell us what that is?

A. That is a line of credit granted by the bank to accommodate a customer.

Q. Under a formal agreement?

A. I can't say.

Q. You don't know?

A. No, I don't know the nature of the agreement between the bank and the customer.

Q. You don't know whether there is a written agreement [fol. 3110] between the bank and the customer setting forth the line?

A. No, I do not.

Q. So that these lines of credit which are indicated here could be by written agreement or they could be, could they not, a gratuitous granting of a line by the bank, in other words, merely informing them orally or in writing, "At any time you want you have a line of credit of $8 million"; is that correct?

A. Conceivably so, yes.

Q. And you don't know when any of these lines of credit were first granted, do you?

A. No, I do not.

Mr. von Starck: May I say at this point that Mr. McDowell will be on the stand shortly. He is the executive vice president and chief lending officer of the Philadelphia National Bank. He will be able to answer of these questions you have with regard to the details about these particular customers.

The Court: He is still under cross-examination, however, and he is entitled to ask the questions.

Mr. von Starck: Oh, indeed, sir.

By Mr. Reycraft:

Q. Now, with reference to the first customer, Mr. [fol. 3111] MacLaren, the line of credit apparently was sufficient to take care of the average loan of $38,000 in 1960, was it not?

A. Yes.

Q. So you wouldn't say that you need a higher lending limit to accommodate that customer, would you?

A. I don't think that that necessarily follows. The fact that the first customer borrowed only $38,000 on the average during 1960 has no relationship with his potential borrowing needs, in my opinion.

Q. Can you explain that?

A. Conceivably in some other year he might be in for more than the $38,000. Conceivably at some time during any year he might be in for the whole $8 million.

Q. He wouldn't have been in for the whole $8 million during 1960? He couldn't conceivably come in, could he?

A. If you divide by 366, no, I guess he wouldn't have been for the $8 million, even for one day.

Q. With reference to the second customer, the $8 million line of credit seems to have been sufficient to take care of his borrowing demands from your bank, doesn't it?

A. To have taken care of his 1960 demands, yes.

Q. He didn't want any in 1960, did he?

A. That is correct.

[fol. 3112] Q. And the same with Customer No. 3; isn't that true?

A. That is true, yes.

Q. And with respect to Customer No. 4, his line of credit was a little over ten times his average loan, was it not?

A. Over ten times his average loan for 1960, yes.

Q. And Customer No. 5 had no loans in 1960, did he, despite the $8 million line of credit?

A. No, he didn't.

Q. And Customer No. 6, the line of credit was over four times what his demand was from your bank, wasn't it?

A. Over the average, yes.

Q. And 7, 8, 9, and 10 made no loans whatever from your bank during 1960, despite the fact that they had $8 million lines of credit?

A. That is correct.

Q. And Customers 11 through 14, in each case the line of credit was anywhere from 12 or 13 to 3 times as much as those customers required from your bank; isn't that correct?

A. As much?

Q. Yes.

A. As much as the average borrowing. I am not sure what they required as a maximum.

Q. Do you know what the maximum loans were during this [fol. 3113] year for any of these customers?

A. No, I don't.

Q. With reference to Customer No. 15, he also did not borrow any money from your bank during 1960, did he?

A. No.

Q. I could go down the list and come to the same conclusion with reference to all but No. 19, which borrowed against customer paper, and No. 26, which had borrowings in excess of its line of credit. Now, in the case of Customers 19 and 26 a $8 million line of credit did not impose an obstacle to their borrowing in the amounts indicated on this exhibit, did it?

A. Not to their average borrowing, no.

Q. Do you know what the high point was of their borrowing during the year?

A. No, I don't.

Q. So that for all of these customers indicated on D-26, the highest loan, except for one of the exceptions, was about $3 million, wasn't it? Let me ask you first, is No. 26, where you have a $10,838,000 loan, an exception to the statute?

(Discussion among counsel.)

Mr. Reycraft: All right, average loan.

Q. The high point must have been an exception to the [fol. 3114] revised statutes; is that correct?

A. It looks like it from this. I couldn't say definitely.

Q. And you don't know what the nature of that loan was or the nature of the exception, do you?

A. No, not in that case.

Q. Do you know whether the services that you rendered to these customers or your bank renders, of the type that you indicated in your testimony, include payroll accounts?

A. In certainly some instances. I don't know. Well, I can say that they do not include the payroll accounts in all instances.

Q. Can you indicate to me the customers where services do not include payroll accounts?

A. No, I cannot.

Q. Would it be usual practice for a customer whose payrolls use service to maintain a deposit account larger than the normal compensating balance for a loan?

A. I would think so, yes.

Q. It would be essential, wouldn't it, to service the payroll?

A. Yes.

Q. In your opinion, are the deposits indicated on Exhibit D-26 representative of the compensating balances which [fol. 3115] you would normally expect to have from borrowers?

A. I don't know what you mean by representative, Mr. Reycraft.

Q. Assuming you did not have the payroll servicing of the customer and he was merely a borrowing customer, are these deposits representative of the deposits that you would require as a compensating balance or expect to get against loans?

A. Oh, no, these are in excess of what we expect to get just against the loan.

Q. Far in excess, are they?

A. Yes.

Q. Isn't the reason for that that these are primarily payroll accounts or deposits that are on this exhibit?

A. I don't believe so. It is a multiplicity of other services that we perform for them.

Q. But all of these services result in far higher than average deposits; isn't that correct?

A. Than average deposits?

Q. Yes.

A. I am sorry. I am not trying to be obstructionist. I don't know what you mean by average deposits.

Q. Well, you used it in a couple of these exhibits. I assume you have a pretty good idea what you mean by it.

[fol. 3116] A. On this exhibit as we use "average deposit," this is the daily average throughout the year. I thought you were trying to connote something in the way of a normal deposit in your use of "average."

Q. I am referring to the average deposit, not over the year, but the normal deposit you would get from a customer who makes a loan from your bank. They are far in excess of what you normally get from a customer who makes a loan from your bank as a compensating balance; isn't that correct?

A. In excess of the portion of the deposit that is associated with the loan, yes.

Q. What portion of the deposits is associated with the loan?

A. Again I think Mr. McDowell can answer this type of question more authoritatively than I can, sir.

Q. You are a vice president and comptroller of the Philadelphia National Bank. You have some knowledge, don't you, of the facts, sufficient to answer that question?

A. I can speak in generalities, in terms of testimony that has already been given, that you look for 20 per cent to start from as a minimum, and then try to build other service on top of that.

Q. That is 20 per cent against the loan, isn't it?

[fol. 3117] A. I am not sure if it is against the loan or against the line.

Q. Mr. MacLaren, the Philadelphia National Bank furnished information to the Government within the past few weeks which indicates, for example, with reference to Customer No. 11, that the average deposits in June, 1960, were $597,000. Can you tell me why there might be this difference between [illegible] and the $1,344,000 which appears on D-26 revised?

A. I think there might be two reasons for that. The

annual average might be higher for an individual customer than the June. I think the other reason is that in D-26 revised we are including data by customers in which we have related accounts. The data that was used from the IBM project for averages for the month of June, as I recall, was all based on a particular account, not grouped together by customer.

Q. I don't understand that.

A. The June figures for any particular customer might have five balances, ten balances, a dozen different deposit accounts in the figures. The cards made up for June were by account, so that for that particular one you would have maybe 10 or 11 different cards.

Q. Were the first figures you gave us for accounts asso-
[fol. 3118] ciated with loans?

A. Which figures?

Q. The average deposits for June, 1960, which were furnished to us a week ago—several weeks ago, my associate advises me.

A. I am not familiar with that particular thing.

Q. You don't know what accounts were covered in the average deposits for June, 1960, which were furnished to us?

Mr. Reycraft: I will be glad to identify it, except it shows the name.

Mr. von Starck: Show it to him.

By Mr. Reycraft:

Q. Do you recognize the IBM compilation which Mr. von Starck has handed to you?

A. I recognize it in general, yes.

Q. Can you tell what accounts are included in that compilation?

A. I think it is obvious that this does not include all the accounts where the relationships are grouped together in 26-A.

Q. Do you know what the basis was for selection of the accounts included in the IBM compilation?

A. No, I do not. Could I modify that a bit?

Q. Yes, sir.

[fol. 3119] A. This is headed—it is hard to read—a hundred largest deposits, I think it says.

Q. Well, it does indicate the hundred largest deposits, but my question was, with reference to each of the accounts, each of the customers indicated on the hundred largest, do you have a knowledge of the basis of the selection for the accounts of those customers which are reported in the compilation? I understand that there may have been more than one.

A. No, I don't know what the grouping was.

Q. I might point out to you that with reference to Customer No. 3 the average deposits for June, 1960, indicated in that compilation were $1,841,000, as compared to $2,041,000 on D-26 revised, and that as to Customer No. 5 the average deposits for June, 1960, were $2,819,000, as compared with $3,422,000 on D-26 revised; and with reference to Customer No. 8, the average deposits for June were $1,278,000, as compared with $1,671,000.

The Court: These are the earlier papers, not D-26, you are talking about?

Mr. Reycraft: Yes, sir, I am talking about deposits indicated in the earlier papers, as compared with D-26.

[fol. 3120] The Court: Or D-26 revised?

Mr. Reycraft: Yes, sir.

By Mr. Reycraft:

Q. With reference to Customer No. 17, the average deposits for June, 1960, were $3,349,000, as compared with $7,023,000 on D-26 revised; and with reference to Customer No. 18 the deposits were $2,066,000, as compared with $5,599,000 on D-26 revised; and with reference to Customer No. 22 the earlier information is $4,901,000, as compared with $5,932,000; and with reference to Customer No. 25 the earlier information indicates $1,887,000, as compared with $2,306,000.

Now, you testified a little earlier, Mr. MacLaren——

Mr. von Starck: Excuse me. Are you asking a question or are you making a statement?

Mr. Reycraft: I will be glad to have him check it. My reason for not marking this in evidence is because it shows the name of your customer.

Mr. von Starck: That was for June, 1960, and this is for a whole year.

By Mr. Reycraft:

Q. Mr. MacLaren, didn't you testify a little earlier that the deposit figures for June, 1960, which you used and relied [fol. 3121] on in D-30 are representative for the entire year of 1960?

A. In the aggregate, yes.

Q. In the aggregate they are, but you think for particular customers they may not be?

A. They might not be for particular customers, yes.

Q. D-26 is not a very reliable indication, is it, of what type of deposits the Philadelphia National Bank might expect to get in compensation for loans unrelated to other services?

A. The intention of this is not to make a measure of the deposits against the loans. The intention of this is to show that for big customers the type of business you do for them brings in very substantial deposit balances.

Q. Yes, and in most cases these customers have plants in Philadelphia where substantial payroll are involved; isn't that correct?

A. Some of them, certainly, yes.

Q. I believe we determined pretty thoroughly earlier that this is about all, didn't we?

A. I think that is probably true. How substantial the payrolls are in each case, I don't know.

Q. Going back to D-15 which you identified a few days [fol. 3122] ago, in your opinion, do all the banks indicated on D-15 for Philadelphia County offer services comparable to Philadelphia National Bank?

A. All of them offer some services comparable, yes.

Q. They don't offer the range of services available from Philadelphia National Bank, do they?

A. I think that most of them do.

Q. Really?

A. Yes.

Q. Do you think the Marian Bank offers the same range of services available to the Philadelphia National Bank?

A. No.

Q. Sonsitaly?

A. Probably not.

Q. Citizens & Southern?

A. No.

Q. Pennsylvania Warehousing and Deposit Company?

A. No.

Q. Second National?

A. I would say probably that did.

Q. They offer the same range of services available from your bank?

A. I would say to a large extent virtually the same range, yes.

[fol. 3123] Q. And a customer or a borrower seeking a bank connection would get as satisfactory services from Second National Bank as he would get from Philadelphia National?

A. You can't say that for every customer, no.

The Court: If he admitted that, he wouldn't be a vice president much longer.

[fol. 3124] By Mr. Reycraft:

Q. You tell your customers or the bank tells your customers that there are a lot of services available at your bank that aren't available at smaller banks, don't you?

A. I don't think we tell them that.

Q. Oh, you don't? All right.

I take it you believe that the fact that these banks are smaller than the Philadelphia National Bank doesn't handicap them in meeting the demands of their borrowers?

A. Of the borrowers that come into them, possibly not. I think that they are limited, certainly, as to the type of borrower that will go there.

Q. And they are limited in the amount of funds that they can lend in total, aren't they?

The Court: Read that back, Mr. Lennox.

(The reporter read the pending question.)

The Court: What is the hesitation?

Mr. Reycraft: Pardon me?

The Court: I am just asking the witness what the hesitation is.

The Witness: The hesitation is some remarks of Dr. Harris about excess reserves.

They are limited, certainly, by their present size. If their deposits would grow larger, then they would be less limited.

[fol. 3125] Mr. Reycraft: Yes.

By Mr. Reycraft:

Q. I believe you recall Dr. Harris' testimony that the ultimate limits on the supply of funds that they can lend is at least their total assets; isn't that right?

A. Yes.

Q. So that there is a limit to the supply of funds available to these banks?

A. Yes, at any particular time, as related to the assets at that time.

Of course, those assets——

Q. They would all hope to grow?

A. Yes.

Q. Now will you refer to D-17.

A. Yes, I have it.

Q. Will you tell me what the total number of loans of the Philadelphia National Bank has been in excess of $2½ million in the period covered by this exhibit?

The Court: Read that question back again.

Are you talking about D-17?

Mr. Reycraft: Yes, sir.

The Court: All right. Read the question back.

(The reporter read the pending question.)

[fol. 3126] The Court: The number of individual loans in excess of $2½ million?

Mr. Reycraft: Yes, sir.

By Mr. Reycraft:

Q. That would be eleven for commercial and industrial and thirteen total, wouldn't it?

A. Twelve for commercial and industrial and fourteen total.

The Court: I have eleven commercial and industrial, one real estate, and "all others," one; total thirteen.

Isn't that what you have?

Mr. Reycraft: Yes, and this is within the four-county area.

Mr. von Starck: That is correct.

The Witness: That is within the range of $2½ million to $4,999,000, yes.

By Mr. Reycraft:

Q. And there was only one in excess of $5 million in the four-county area at this time, wasn't there?

A. Yes.

By the Court:

Q. And in excess of $1 million, the bank only had, I believe, 35 loans as of this date; isn't that correct?

A. In the commercial and industrial category, sir.

[fol. 3127] Mr. von Starck: May the record show that this is all limited to the four-county area too?

Mr. Reycraft: That is correct.

The Court: And this is as of the time of September 21, 1960.

Mr. Reycraft: Actual count as of September 21, 1960.

The Court: Yes; that's right.

By Mr. Reycraft:

Q. Now referring to D-18, Mr. MacLaren, can you tell me who prepared that exhibit?

A. This was prepared by the Girard Trust Corn Exchange Bank.

Q. You didn't have anything to do with the preparation of it; is that correct?

A. No, I didn't.

Q. Mr. MacLaren, I want to show you the annual report of the Philadelphia National Bank as of January 17, 1961, the annual report for 1960, and ask you if you will refer to page 12 and read the last paragraph on that page and the first paragraph on page 13.

A. "The effectiveness of the program is further indicated by the fact that total deposits over the decade have increased *by $283 million to over $1 billion*, with $173 million of the increase coming from merged

banks. Gross loans increased by $331 million to $551 [fol. 3128] million, with $41 million arising through merger. Net earnings per share increased from $2.46 in 1950 to $3.77 in 1960, despite a rise in Federal income taxes from 87¢ to $3.21 per share."

Q. And the first——

A. And the first paragraph?

Q. —the first paragraph on the next page.

A. "In the retail field, savings accounts and time credit loans were two services not provided at PNB in 1950. By the end of 1960, savings deposits amounted to $100 million and time credit loans to individuals to $50 million. Mergers accounted for $60 million of savings deposits and $6 million of time credit loans. Over the ten-year period, deposit accounts of all kinds serviced by your bank increased from 12,000 to 225,000."

Q. That report indicates that you thought you were doing pretty well, doesn't it?

A. Within the Philadelphia area, we have grown pretty well, we think, yes.

Q. Total deposits increased almost four times, didn't they, over the decade?

A. No. I don't read that into the figures.

Q. 283 million to over $1 billion?

A. Increased by $283 million.

[fol. 3129] Q. All right. I am sorry. You are right.

Now D-18 covers the period from 1951 to 1960 and D-19 covers the period from 1950 to 1960.

Can you tell me what the reason for the difference of one year is?

A. The reason for the difference of including one extra year in D-19 is the fact that the Ninth Bank and Trust Company, which merged with Philadelphia National in September, 1951, we needed a year prior to that in order to get what we felt was at least a picture of the deposits, the loans, and the deposit-loan ratio pre-merger.

Q. You thought it was fair to show that in the exhibit?

A. Yes.

Q. Do you know when the merger of the Girard Trust and the Corn Exchange took place?

A. I think that is in the record some place.

Q. Was it during 1950?

A. 1950 or 1951, I think.

Q. Subject to correction, I believe it was June 21 of 1951. D-18 begins as of December 31, 1951; isn't that correct?

A. That is correct, yes.

Q. So it excludes the growth attributable to the Girard Trust-Corn Exchange merger, doesn't it?

[fol. 3130] A. In D-18, for each one of the banks shown, the figures for the merged banks have been included pre-merger.

This is what I referred to in my earlier testimony as natural growth.

Q. Can you tell me, Mr. MacLaren, what the combined deposit growth of Philadelphia National Bank and Girard was over the nine years as indicated on D-18?

A. The tables at the back show for Girard Trust Corn Exchange Bank a deposit growth of $88,073,000; and on page 3, for Philadelphia National, a deposit growth of $128,293,000.

By the Court:

Q. Are you talking about D-18?

A. Yes, sir.

Q. Where is that figure?

A. Page 2 in the tables in the back, where the data are given for Girard Trust, Your Honor.

Q. $88 million; yes, I see that now.

A. And on page 3 the corresponding figure for Philadelphia National, $128,293,000.

Adding the two together, that is $216,366,000, if I add it correctly.

By Mr. Reycraft:

Q. Now you consider mergers growth also, do you?

A. Could you repeat the question?

[fol. 3131] (The reporter read the pending question.)

The Witness: Mergers are acquisition of assets or deposits or whatever, yes.

By Mr. Reycraft:

Q. Well, whether or not you consider it the growth of a bank, with reference to Girard Trust Corn Exchange, its increase in deposits from 1951 to 1960 was about $190 million or 27 per cent; wouldn't that be about right?

A. Do you mean——

The Court: Wait a minute. Wait a minute.

Read that question back.

One was fourteen and the other was thirteen, and that would be 27 per cent, but are you——

Mr. Reycraft: I am starting, sir, from the deposits of the Girard Trust Corn Exchange as of December, 1951 and including the mergers as an increase in deposits.

The exhibit——

The Court: Is that page 2 of D-18?

Mr. Reycraft: Yes, sir, $508,212,000 being deposits as of December of 1951 and the increase to $698,563,000 as of 1950, represents $190 million or about 27 per cent.

On the next page, the increase for Philadelphia National Bank from $813 million to $1,049,000,000, is about 29 per cent.

[fol. 3132] By Mr. Reycraft:

Q. Are those figures about accurate, sir?

A. I will accept your calculation, yes.

Q. Now using that type of basis is more consistent with the statement in your annual report, isn't it, than taking the growth in the manner in which you have done it in D-18?

A. I don't believe so, Mr. Reycraft. Our annual report for years, when we were showing statistical trends, we have indicated by footnotes, "Adjusted for merger"; so that the basis used in D-18 is consistent with our annual reporting when we get into the statistical part of the report.

Q. Well, on page 12 you indicated growth of $283 million; isn't that right?

A. (No response.)

Q. As compared to an increase of $128 million on D-18?

A. Well, the context of page 12—I haven't read the whole thing—is showing two things:

It is showing the total growth over the decade and the amount that has come by merger.

Q. Yes. It is headed "A Decade of Growth," isn't it?

A. That is correct.

If you look at the statistical tables on pages 18 and 19 it won't show up in this particular time because the mergers were out of the way by this time; but the same tables for [fol. 3133] each of our previous years, where we were showing the five year growth on these tables, we have adjusted for mergers in the same way as we have——

Q. You show it both ways?

A. No, sir. We show it in our statistical tables only one way.

For this particular purpose of the text on page 12 we were elaborating a bit further.

Q. Now if one went back before the merger of the Girard Trust and the Corn Exchange Bank in 1951 you would get an additional $288 million of growth, would you not, on the same basis?

A. You would get an additional whatever the figure is of assets acquired by merger—growth through that medium, yes.

Of course, I point out that every other bank that has had a merger is treated in D-18 in the same way as Philadelphia National and Girard are.

Q. They have just had more than the others?

A. What was that?

Q. I say they have just had more than the others; is that true?

A. Not necessarily.

Q. Will you refer to D-20.

A. Yes. I have it.

Q. Now you show on D-20 a bank in Los Angeles with [fol. 3134] assets of $11 billion.

That is the Bank of America, is it not?

A. That is correct.

Q. And you show the same bank in San Francisco, do you not?

A. Yes.

Q. Isn't it a fact that that bank, which is shown twice on this exhibit, has branches throughout the entire State of California?

A. Yes. That's a state-wide banking system.

Q. You don't mean to imply or mean to infer that the

deposits shown here or the assets are all attributable to any one city, do you?

A. No. That's not the purpose of this at all.

Q. And the exhibit doesn't show, does it, the assets or deposits of these bank offices of the Bank of America which are located in either Los Angeles or San Francisco, does it?

A. No. We don't have that information available.

Q. So that in the Los Angeles part of the graph you include all the deposits in San Francisco as well as the rest of the state, and in the San Francisco part you include all of the deposits in Los Angeles as well as the rest of the state?

A. Yes. There is a duplication to that extent.

On the other hand, the full strength of the Bank of America is available within each of those cities.

[fol. 3135] Q. Will you refer to D-23, Mr. MacLaren.

A. 23?

Q. Yes, sir.

A. Yes, I have it here.

Q. Would you read the title of that exhibit.

A. "Assets of Five Largest Commercial Banks as Per Cent of Total Assets of Commercial Banks in Reserve Cities and Central Reserve Cities."

Q. Do you know whether all of the cities indicated on this exhibit are reserve cities or central reserve cities?

A. I assume that as of June, 1956 they all were either reserve cities or central reserve cities.

Q. Do you know whether all of the cities indicated have five commercial banks?

A. No. I do not, though I would assume from the heading that they do.

Q. Well, I think if you will refer to D-21 you will find for Ogden, Utah, for example——

Mr. von Starck: May I show him D-21?

Mr. Reycraft: Sure.

By Mr. Reycraft:

Q. —that three commercial banks are indicated.

A. Yes. That is correct.

Q. And for Helena, Montana, I believe D-21 shows only [fol. 3136] two banks, which represent 100 per cent of the

assets according to D-21. It is true also of several others.

I believe you will agree with me the title is not accurate, wouldn't you?

A. To that extent, yes.

Q. And on D-22 the title is not accurate either, is it?

A. I think I mentioned that in my direct testimony, that if we call it "Assets of the Largest Commercial Bank as a Per Cent of Total Assets of all Commercial Banks in Reserve Cities," it would be accurate.

Mr. Reycraft: That's all I have on cross-examination.

Mr. von Starck: No redirect.

The Court: Anything further?

By Mr. Price:

Q. Mr. MacLaren, with reference to D-26, you were asked whether there were any loans as high as $8 million.

Have you any information as to how many other loans the various companies listed on that exhibit had outstanding elsewhere?

A. No. I have no information on that.

Q. D-18, page 2, of the addenda relating to the Girard, it shows growth in the ordinary sense as contrasted with mere increase in size, does it not?

A. Yes.

[fol. 3137] Q. Increase in size would include increase in size by acquisition or merger with other banks, plus the ordinary growth that comes through doing successful business?

A. It would be the combination of both, yes.

Q. But it is broken down in such a way as to be able to distinguish each type of growth, whether simply growth by acquisition or growth by successful business?

A. Yes. The details for 1951 of the deposits acquired by merger will give the growth by acquisition, as you say.

Q. And under this column, 12-31-51, with the dates of acquisitions to the left of that, it shows separately the amount of deposits acquired by merger or acquisition for those several dates, does it not?

A. Yes, it does.

Q. And the sources?

A. Yes, it does.

Q. But if this table starts on December 31, 1951, the start-

ing figure of $588 million includes whatever was gained from the merger with the Corn Exchange Bank, does it not?

A. Yes.

Q. Then the $88 million shown in the next to the last column on the right is the true growth from business operations as distinguished from acquisitions, is it not?

A. Yes, it is.

[fol. 3138] Mr. Price: All right. Thank you, Mr. MacLaren.

By Mr. Reycraft:

Q. The deposit figures for the acquired banks are not as of the date of acquisition, are they?

A. Those would be the figures as of December 31, 1951.

Q. So that they don't represent what was actually acquired at the time of the acquisition?

A. Not at the time of the merger, no.

Q. For example, First National Bank of Conshohocken, the deposits as of the date of acquisition, I believe, are $14,890,000 and the others are also different as of the date of acquisition than as indicated on the exhibit?

A. Yes. There would be a change between December of 1951 and the acquisition date, quite naturally.

Q. And with reference to the Girard Trust Corn Exchange Bank on page 2, if you started this exhibit in 1950 the figure, instead of being $508,212,000, would be under $300 million, would it not?

A. I can't recollect exactly what the Corn Exchange figures were.

Q. Our records show as of June 21, 1951, they were $288,618,000; so that would be subtracted from the figures given on page 2, wouldn't it, in order to make a compilation [fol. 3139] comparable to D-19?

A. Not that particular figure, but something of that general magnitude, I assume.

Q. Yes, of that general magnitude; so if you are showing the growth, whether by what I believe you described as natural growth or by acquisition, you would get a very much larger percentage starting from that base, would you not?

A. Not in the natural growth, no.

Q. No, but from all sources?

A. From all sources, yes.

Q. And you have referred to growth by means other than acquisitions as natural growth. Do you consider acquisitions to be unnatural growth?

A. The English language has some quirks in it, Mr. Reycraft.

Mr. Reycraft: You don't have to answer that. That's all.

Redirect examination.

By Mr. von Starck:

Q. Turning to Exhibit D-18, am I correct in recalling your direct testimony to be that you had checked these figures which appear in D-18 against Polk's Directory?

A. I have done some spot-checking; I didn't check them all, no.

Q. In your opinion, are the figures in D-18 correct?

[fol. 3140] A. Yes.

Q. Now turning to D-26 revised, were the average deposits for those customers shown on D-26 all of the deposits attributable to each one of those customers on the bank's records?

The Court: Read that question back.

(The reporter read the pending question.)

The Witness: No, they are not.

By Mr. von Starck:

Q. What exceptions are there?

A. There is one exception noted in the footnote of a large time deposit. There are other minor exceptions of smaller time deposits that we didn't bother to note because they weren't of the stature of this particular one that we did note.

Q. Are there deposits of subsidiaries or affiliated companies shown on D-26?

A. They are included in the figures, yes.

Q. So that you have taken not only the deposits attributable to the parent's operation, but also those attributable to subsidiaries and affiliates?

A. That's correct; yes.

Q. Now have you done the same thing for loans?

A. Yes, we have.

Q. So that with the exception of certain time deposits you [fol. 3141] would say that you have on D-26 all of the deposits and all of the loans attributable in any way to any of these 27 customers?

A. Yes.

Mr. von Starck: That's all I have.

By Mr. Price:

Q. Mr. MacLaren, referring again to D-18 and Mr. Reycraft's question about the size of the Girard without the Corn Exchange, the $88,073,000, which is the normal growth other than from acquisitions, would be the same whether or not the merger with the Corn Exchange were shown separately or not; is not that a fact?

A. Yes.

Q. From December 31, 1951?

A. Yes.

Q. So that that figure is unaffected by the fact that the merger of the Girard and the Corn Exchange took place before December 31, 1951?

A. That is correct, yes.

Q. And showing the actual amounts of the deposits of the Girard and the Corn Exchange separately on the date of the merger, which I think was sometime in June of 1951, would not affect that figure of $88 million?

A. It wouldn't affect that, nor would it affect the totals [fol. 3142] as of December 1st either.

Mr. Price: Thank you.

Recross-examination.

By Mr. Reycraft:

Q. Adding the Corn Exchange would make the natural growth about $470, wouldn't it?

Could you tell me what the basis for your opinion is that D-18 is accurate?

A. The fact that I have done some spot-checking of the figures against Polk's.

Q. You couldn't vouch for the whole exhibit, though, could you?

A. I couldn't vouch for the fact that there might not be a statistical error in it.

I know it was prepared by a very careful and competent statistical staff.

Q. Under the direction of the Girard Trust?

A. Yes.

Mr. Reycraft: That's all.

[fol. 3143] GEORGE H. BROWN, JR., having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Brown, what is your connection with the Girard Bank now?

A. I am the president.

Q. And you have been for how long?

A. I have been the president since November of 1959.

Q. When did you first make a connection with the Girard Trust Company?

A. I joined the Girard Trust Company at a very young age. This was back in 1923, some 38 years ago.

Q. And in what capacity?

A. At that time I was employed as a clerk in the Corporate Trust and Transfer Department of the bank.

Q. Mr. Brown, I would like you to describe in some detail your experience with the bank, and if you can do it chronologically that would be helpful.

Will you give us the successive positions that you held in the bank from the time of your first connection with it until you became president, telling us at the same time approximately how long you held each position.

A. Well, as I have stated, I went to work in the bank in [fol. 3144] 1923. At that time I was in the Corporate Trust and Stock Transfer Department of the bank. I was in that

department handling all phases of corporate trust activities until 1931.

Q. Now without describing in detail what your duties were, would you just mention very briefly the activities that you were assigned and that you participated in in the Corporate Trust Department?

A. Well, in the Corporate Trust and Transfer Department we, of course, were transfer agents for the stock of corporations, we were registrar for the stock of those corporations. We acted as trustee under bond issues. We paid the dividends for corporations as dividend-paying agent, and every other corporate act of a corporation relating to the handling of its shareholders, shareholders' lists, the proxies related to shareholders' meetings, and other activities of that nature.

My own particular duties, however, had mostly to do with the transfer of securities. These were securities of which we were the transfer agent.

In those days the stock market was very lively and there was great activity in the transfer of shares of stock in the way of stock splits, in the way of subscriptions of stocks, and that type of activity.

[fol. 3145] Q. Your next position was what?

A. In 1931 I moved into the Real Estate Department of the bank. The Real Estate Department of the bank handled not only the bank's real estate and mortgages, but also handled the Trust Department's real estate mortgages. It was in that latter area of the Trust Department that most of the mortgages were held. We had some $50 million at that time, and we also had several thousand properties which we had for management in decedents' estates and for purposes of homesteads of the decedent's family. In this particular area in 1931 that will be recognized as a date which were rather dark times for our country, and we had a tremendous number of foreclosures. At one time I had under my jurisdiction some 8000 properties and some 15,000 tenants who occupied those properties. So this was in the early years of 1931 and 1932.

In 1932 I was made assistant real estate officer of the bank, in complete charge of both the Mortgage Department and the Real Estate Department activities. Of course, the mortgages had diminished in number, because of the great

number of foreclosures, and the real estate had increased in great numbers by reason of the acquisition of properties under foreclosure proceedings.

[fol. 3146] Q. In that position did you have an opportunity to observe all of the activities of the bank in connection with real estate, the management of real estate?

A. Yes, I did. Everything having to do with real estate came under my management. I handled the sales and the leasing of all the properties, the properties that were being sold or liquidated. That was an activity which I followed, and also the leasing of the properties, many of them very important properties, were all matters which came under my jurisdiction. Of course, this also included the great amount of accounting which had to do with the collection of rents, with the collection of mortgage interest, also with the resetting of mortgages to bring about the amortization thereof. In those early days very few mortgages were ever amortized, and we had to enter into a whole program of setting up mortgages on a reduction basis so that someday you might recoup the principal.

Q. Was the making of mortgage loans by the bank for its own investment purposes, as distinguished from the trust investments, something that came under your observation likewise?

A. Yes, that came under my observation also. Of course, when we made mortgage loans we always had to have two appraisals of the properties, and in those early days that [fol. 3147] I am speaking of, in the early 1930's, I handled the transactions, including the acceptance of the loans, subject only to the approval of the vice president in charge of the Trust Department.

I perhaps should have pointed out that in our bank the Real Estate Division is a part of the Trust Department. It is broken down into a number of activities, and this one particular activity was the Real Estate and Mortgage Division.

Q. But you covered both?

A. I covered both.

Q. Or your department did?

A. That is correct.

Q. How long were you in that department?

A. I was in that department up until about 1941. During that time liquidation of properties was then proceeding. It

was possible after about 1936 or 1937 to find somebody to buy these properties, and we had pretty well liquidated the properties and were making great inroads in it up around in the early 1940's.

In 1941 I was asked to go into the administration of trust estates. This had to do with the probate of Wills——

Q. What was your position and title in the Real Estate [fol. 3148] Department at the time you made the change?

A. At the time I made the change in 1939 I had then been made real estate officer of the bank, and, interestingly enough, in that same year I was made assistant vice-president of the bank.

Perhaps I should have mentioned this before. I moved into the administration of trust estates in both the probate and the trustee function as it relates to trust estates. In 1941 I was made a vice president of the bank.

Q. What title did you have then so far as the Trust Department was concerned?

A. Well, I was vice president of the Trust Department in charge of trust administration.

Q. And how long did you hold that position?

A. I held that position until 1951, at the time of the merger with the Corn Exchange National Bank and Trust Company.

Q. Without going into the details at all, just what were your duties as head of this department, this Trust Department?

A. Well, perhaps before I got to my appointment as senior vice president of the bank in 1951, I should have [fol. 3149] mentioned that in 1948, as vice president of the bank, I was placed in complete charge of the Trust Department of the bank. This involved not only the administration of the trust accounts and the handling of the probate of estates, but also investments, estate planning, our tax work, our accounting work, and every facet of trust business and trust administration. This was a job which I say I assumed in 1948, and I was made senior vice president at the time of the merger in 1951.

Q. Then after the merger, following 1951, what was your position?

A. In 1953 a suggestion was made in the management of the bank that perhaps I might change hats with the head

of the Banking Department, so that the man who was the senior vice president in charge of the Banking Department became senior vice president in charge of the Trust Department, and I in 1953 assumed charge of the handling of all of the Banking Department of the bank.

Q. Without going into too much detail, will you just outline briefly what that involved.

A. Well, this had to do with the complete administration of the Banking Department, and under the Banking Department, of course, all of the deposit and loan functions, the matter of developing new business for the bank, the develop-
[fol. 3150] ment of the bank's branches, the development of other policy matters affecting the bank, particularly as it related to Banking Department activities. Of course, all other functions in the bank having to do with their operations and having to do with the administration of the Trust Department all came into my supervision at about that time also because in 1955 I was made executive vice president of the bank, and I continued on with the greatest responsib lity, not only for the Banking Department itself in all its functions, but in addition to that I kept a watchful eye on the Trust Department, the activities of which I was very familiar with from my previous years in association with that area of the bank.

Q. Did that include experience with a knowledge of the various services, banking and otherwise, that the bank would render its customers?

A. Yes, my responsibilities extended to really every service in the bank. As head of the Banking Department—and I am speaking now of the banking side of the bank—this had to do not only with the 101 services that we furnish—I say 101 because we made a count one day and we found we had 101—but all other administrative activities of the Banking
[fol. 3151] Department, and this would cover the Consumer Credit Department, the Foreign Department, the Business Development Department, the Customer Service Department, collateral loans, and all activities of that and the whole gamut of activities in the Banking Department of the bank.

Q. Tell us whether that brought you in contact with the various types of competition which exist in Philadelphia and the surrounding area.

A. It certainly did. Shortly after I joined the Banking

Department in 1953 I came head on with all the competition that exists in the banking situation in Philadelphia and throughout the country.

I perhaps should have mentioned also earlier that another one of my responsibilities in the Banking Department was that of the Correspondent Bank Department. We have a sizeable Correspondent Bank Department, and the administration of that also fell to my lot, and it was very clear from the very first day that I started in the Banking Department that the competition throughout the city for business was really fierce competition. Everybody was out to get business that might be available.

Q. You became executive vice president in 1955, did you say?

[fol. 3152] A. In 1955 I became executive vice president.

Q. Who was president at that time?

A. The president at that time was Geoffrey S. Smith, who is now our chairman.

Q. How long did you remain as executive vice president?

A. I remained as executive vice president until November, 1959, when I was elected president of the bank.

Q. And you have held that position ever since?

A. Yes, I have.

Q. Now will you turn to pages 22 and 23 of the application.

The Court: I think this would be a good time to recess. We will start at 2:00 o'clock.

(Recess taken at 12:30 P.M. until 2:00 o'clock P.M.)

[fol. 3153] [File endorsement omitted]

AFTERNOON SESSION

(Present: Counsel as previously noted.)

GEORGE H. BROWN, JR., resumed.

The Court: Proceed, Mr. Price.

Direct examination (continued)

By Mr. Price:

Q. Mr. Brown, will you turn to Exhibit 57, the application that was made in connection with this merger, and particularly pages 22 and 23. The heading of that section beginning at the bottom of page 22 is "Historical Background—Girard Trust Corner Exchange Bank."

Would you just summarize that for us and tell us a brief history of the Girard Trust before the merger in 1951.

A. Yes.

The Girard Trust Corn Exchange Bank has just celebrated its 125th anniversary. As it indicates here, it was formed first as the Girard Life Insurance, Annuity, and Trust Company of Philadelphia, which was chartered on the 17th of March, 1836. It was the successor to the Girard Beneficial Association, whose name had been changed on May 21, 1835 from the Girard Savings Institution of Phila- [fol. 3154] delphia. It opened for business on July 1, 1835. That was the successor company.

In addition to being a bank of deposit, it was chartered to engage in two lines of business, as the title indicates, life insurance and trust service. Subsequently, the life insurance business was discontinued.

In 1899 we changed our name to Girard Trust Company.

In 1917, at the time the Federal Reserve System was formed, we became a member.

The Girard placed its primary emphasis on trust business and the accompanying bank services for those customers and other individuals. It also specialized in collateral loans secured by marketable securities and by cash surrender life insurance.

By 1939 the estimated value of the personal trust assets

had grown to $700 million, the deposits to $122 million, and the capital funds to $14 million.

In 1940 special efforts were begun to be placed on the development of commercial business as well as consumer credit loans.

Q. Prior to 1940, what was the major emphasis in the banking aspects of the company's operations?

A. Well, the major emphasis was merely the handling of [fol. 3155] deposit accounts and the making of loans secured by collateral.

Q. Now, in general, what were the sizes of such deposit accounts?

A. Those deposit accounts were quite large in size. We did not have too many of them. It is my recollection that we had less than 10,000 accounts and I would say that the smallest would be in the area of about $5000.

Q. Would that put the Girard as of that date in the category of a wholesale bank, a term which was applied to the Philadelphia National?

A. Yes, indeed it would. We were just a one-office bank at Broad and Chestnut Streets and we conducted our entire business from that point.

Q. Then this consumer credit loans was an entirely new operation, was it, so far as the activities of the bank were concerned?

A. Yes, it was. As a matter of fact, before we had merged with the Corn Exchange Bank, we had made a very small entry into that business.

Q. All right. Then continuing from 1940, will you tell us the history.

A. Well, in 1940, as I indicated, we had but one office and this actually continued until 1950.

By the time that we reached that point, the estimated [fol. 3156] value of personal trust assets had grown to $1 billion and the deposits to a total of $216 million and the capital funds to $19 million.

Q. During that ten-year period was there any change in the demands of your customers and depositors?

A. Well, during that ten-year period we saw a definite change in the movement of people, people who lived in the city were moving to the country; and we were finding that if we are to continue in the banking business and progress in

the banking business we would have to have better facilities in the way of convenient offices to service customers.

Q. You mentioned people moving to the country. What can you say about businesses during that period?

A. There was also a trend that had started in that direction by business. Many businesses were downtown in loft buildings and they started to find one-story buildings out in the country and this particular type of need of commercial building became much more popular as time progressed and when we got into the fifties there was really quite a move to the country by many commercial establishments, many of them being our customers.

Q. Now how did you reach that situation?

A. Well, we first thought that perhaps we could solve this problem with which we were confronted by establishing [fol. 3157] branches, but as we looked over the situation it was too slow a process and actually one that cost entirely too much money. Actually, while we were a very strong bank we felt we didn't have the resources to embark on a branch program such as we felt was necessary to serve the interests of our bank and our customers.

Q. When you speak of establishing branches, can you describe the different kinds of branches that may be established?

There are two terms, I think, which are applied to them.

A. Yes. You establish branches in one way through merger and you establish branches in another way by just finding a location and building a branch, sometimes called a de novo branch.

Q. So that the distinction then is between the de novo branch, where you start from nothing; and a merger, where you acquire a branch either by merger or purchase?

A. That is correct.

Q. Now what course did you pursue and why?

A. Well, we decided in 1950 that it would be unwise for us to develop our own branch system and we looked around and we saw that the Corn Exchange National Bank and Trust Company had made, long before we had, moves in the consumer credit business, they had established special checking accounts, they were dealing with a larger segment of the population than we were.

[fol. 3158] We had the top customers and the top people

around town as our customers, but the economic conditions had brought into being many additional people who would be candidates and prospects for banking services.

So, seeing that the Corn Exchange Bank had already established twelve offices, it seemed to us that we could solve this branch problem by bringing about a merger with the Corn Exchange National Bank.

Q. Where were their branches?

A. All of their branches were located in Philadelphia. Their main office was at Second and Chestnut Streets and their uptown office was at 1510 Chestnut Street.

Their largest concentration of offices was in the Northeast, and that attracted us because that was an area of the city that seemed destined to be build up and had not been nearly so well developed as other sections of the city.

Q. The merger with the Corn Exchange took place on what date?

A. The merger with the Corn Exchange took place on June 15, 1951.

Q. What can you tell us of the relative size of the two banks at the time of the merger?

A. At the time of the merger, from a deposit standpoint, the Corn Exchange National Bank was the larger bank. The Girard had deposits, oh, perhaps within $20 million to [fol. 3159] $25 million of the Corn Exchange Bank deposits, but they had, as I say, something on the order of about $288 million—$290 million of deposits; and as to capital assets we both had about the same amount of capital and surplus and undivided profits, so that it was a very happy arrangement that we were able to put the banks together, and each bank received share for share.

Actually, the Girard shareholders kept their shares because the Corn Exchange Bank was merged into the Girard, but that might very well have been in the other direction. These banks were so much of a size that we really consolidated our interests rather than merging our interests as you ordinarily think of a bank merger.

We, at one point, thought we might become a national bank and after some consideration finally decided to go the route of the state on the theory that perhaps the trust powers which we had under our charter would be more beneficial to the over-all bank; but we might just as well have

been today the Girard Trust Corn Exchange Bank, a national bank, taking the Corn's charter.

As it developed, we went the other way and we took the Girard's charter.

Q. How did the trust activities of the two institutions compare?

A. Well, we were much larger than the Corn Exchange Bank. They had about $75 million in assets, whereas we had [fol. 3160] about a billion.

Q. You are speaking now of trust assets?

A. Of trust assets.

Q. Yes, and in relation to the character of the depositors, were the deposits in the main of the same size or larger or smaller?

A. The accounts of the Corn Exchange Bank were much smaller than our accounts. They were dealing with the public at large, whereas we were dealing, let's say, with a very select class of depositors from the standpoint of his resources.

They had special checking accounts, something that we had never dreamed of having.

They had started a consumer credit department and were engaged in a great deal of activity in making small loans to the public. This was something that was really frowned upon by banks in the early stages, but it has become a very popular activity in recent years.

Q. Did you have any Consumer Credit Department at that time?

A. We had made a start. We had offered our services but, frankly, we didn't know too much about it and had made very little progress.

Q. But you had no special checking accounts then?

A. We had no special checking accounts.

Q. Then, beginning from the time of the merger, what was [fol. 3161] the development of the bank?

A. Well, after we had merged together in 1951 we looked at the city as a whole to see where we might also be represented, and the Germantown area looked attractive to us and we entered into a merger agreement with the National Bank of Germantown in 1953.

Q. In general, what was the purpose of that merger?

A. The purpose of that merger was to extend the branch

activity that we had. This Germantown office would put us a little closer to the Chestnut Hill area, to the areas of the city that we wanted to reach; and we had no real branches in that direction and that is why that was so attractive to us.

Q. Was the National Bank of Germantown a bank with branches or only one central office?

A. The National Bank of Germantown had only one office.

Q. Then what happened next?

A. Well, the next thing that happened is that we had a merger with the North Philadelphia Trust Company. The North Philadelphia Trust Company is on Broad Street, up at Broad and Erie Avenue.

That bank was also a one-office bank. Their management was aging; they felt that they wanted to sell their bank or to merge their bank and we were not represented directly in that particular area, so it was attractive to us and we made a [fol. 3162] merger agreement with the North Philadelphia Trust Company.

Q. When was that?

A. That was in 1954.

Q. I don't believe I asked you when the merger with the National Bank of Germantown took effect.

A. That was in 1953.

Q. Did the North Philadelphia Trust Company have any branches itself?

A. No, it did not, Mr. Price.

Q. Did that serve an area where you did not have branch facilities?

A. No, we had no branches in that direct area, in that general area.

Q. What was the next step in that direction?

A. The next step was that of going over the county line. We had long felt that we should be over the county lines because so many of our customers had moved in those areas, and also those areas which were then relatively undeveloped were growing like Topsy.

We saw a great chance to participate in the growth of those communities, so that in order to make a move in that direction we made two moves in Montgomery County:

One, we moved to acquire the Narberth National Bank, [fol. 3163] the Narberth Bank and Trust Company (that was in 1957) and at the same time we moved in the direction

of Ambler, where we acquired the Ambler National Bank, also in 1957.

The acquisition of these banks was a real plus to our branch system because in Narberth they had a very satisfactory office not only in the heart of Narberth at the railroad station, but they also had one in Bala-Cynwyd and they also had one in Wynnewood.

At Ambler the same situation was the case.

Q. May I interrupt you?

There were just three offices of the National Bank of Narberth?

A. That is correct.

Q. The central office and two branches?

A. That is correct.

Now in Ambler this was also the situation. As to numbers, there was the main Ambler National Bank on the main street at Ambler and there was also a branch at Flourtown, which is quite near the city, and there was a branch just being established at the Fort Washington Industrial Park.

This is one of the reasons that we wanted to go out of town. Here was a large industrial park starting out in the Montgomery County area at Fort Washington, and here was a chance to participate in the growth of business and popu-
[fol. 3164] lation in that area.

Since that time it has improved greatly and it was a very wise move, I am glad to say; so that we really acquired the main office there, which is one office now of our branch system, and the two other branches already existing at the time of the merger in 1957.

Q. So that that Industrial Park branch was not one that the Girard initiated itself?

A. No.

Q. But you acquired that along with the Ambler Bank?

A. That is right.

They had contemplated, as a matter of fact, establishing that branch at the time that we were talking about the merger and established it just a few days, actually, before we did merge.

Q. So that that was acquired as an open branch along with the Ambler Bank?

A. That is correct.

Q. What stage had the Industrial Park reached in its development at that time?

A. It just had a relatively few buildings at that time. The first tenants had moved in and there was a great deal of ground there that could be developed and actually the establishment of a branch there was quite a risk on the part of [fol. 3165] the Ambler Bank because it was questionable whether that would be a good area; but it was a very wise decision, as I have indicated. The Industrial Park has grown beyond any realization at the time we moved there and it is continuing in that direction.

Q. What can you say about the profitability of that particular branch at the Industrial Park?

A. That branch is proving to be very profitable. As a matter of fact, we have already outgrown it and we are going to establish another office about 65 feet away.

Q. What was the next step?

A. The next step was the acquisition of the Upper Darby National Bank. This acquisition occurred in 1958, in April.

There, the Upper Darby National Bank had established an excellent branch system in Delaware County. They had in all some twelve offices, including the office they had in the PRT Terminal and the office that they had, the drive-in office in back of the main office, which was on Market Street in Philadelphia—well, actually it was across the street from Philadelphia. It was practically zoned Philadelphia.

Here we had, as I say, a total of twelve different outlets in an area that had shown a considerable amount of growth during earlier years, and the Upper Darby Bank such [fol. 3166] branches as Pilgrim Gardens, Lawrence Park, Manoa Shopping Center, are all within relatively a few years from the time we merged with them.

[fol. 3167] Q. And what has the growth in that area been since the merger?

A. It has continued to progress very well. We have continued to build our deposits in Delaware County, and we show substantially more growth in Delaware County than we do in our city office, in Philadelphia.

Q. That is the bank which has the branch at 69th Street where the branch of the Philadelphia National Bank exists, is it not?

A. Yes. As a matter of fact, the Philadelphia National

Bank has an office immediately next door to our main office. It is a very small office and ours is quite a large office, but it nevertheless does exist right next to us.

Q. And that was established when with reference to the time of Girard's merger?

A. Well, we merged in 1958. I would say that that branch was established sometime probably in late 1959 or early 1960, but I am not sure.

Q. And the present plan with reference to the branch, if the present merger which we are talking about here goes through, is what?

A. The present plan would be to close that office because we have plenty of room next door. We are modernizing [fol. 3168] and have the plans for modernizing this large office there on Market Street, and there will be plenty of room and facilities for the depositors of both banks.

Q. And then were there any more steps of importance of that character after the merger with the Upper Darby Bank?

A. I would say the important steps lead us up to the present situation where we find ourselves.

Q. The Girard now has approximately how many branches?

A. Well, we have a main office and 38 branches. We have established an additional branch and have it open up at Roosevelt Boulevard and Comly Street since this application was filed, so that there is a main office and 38 branches.

Mr. Price: Will you mark this.

(1960 Annual Report of Girard Trust Corn Exchange Bank was marked Exhibit D-33 for identification.)

Q. Mr. Brown, I show you the annual report for the year 1960 of Girard Trust Corn Exchange Bank and ask you if you can identify it.

A. That is certainly the report.

Q. That is the last annual report that has been issued by the bank, and it contains the most current up to date state- [fol. 3169] ment of its condition and operations, does it not?

A. That is correct.

Q. Now, Mr. Brown, you told us about the development of the Girard Trust Company as an institution, as a bank,

Will you say a word about your view as to the fundamental difference between a banking enterprise and a business enterprise, such as manufacturing or selling?

A. Well, there is really no comparison between a manufacturing or mercantile business and a bank. First of all, a bank carries on its business with somebody else's property, namely money, and this money belongs to the depositors, who are a part of the public, and we therefore have entrusted to us these funds of our depositors, and this is a public trust which we have that, of course, is subject to substantial regulation.

Naturally, the supervisory authorities, both the federal and state authorities, are concerned with the conduct of our business for the protection of the depositor, that his dollar will not be lost while it is in our possession, so to that extent this has no comparison with a manufacturing or mercantile business.

In addition to that, because of the fact we have the depositor's dollar, it is the bulk of our trade that we have [fol. 3170] these dollars in the bank, we are very closely regulated so that not only will we protect the depositor, but also this regulation under which we work is devised to keep the bank entirely within bounds as to how it conducts its business, so that our freedom of action, because of this peculiar situation of having someone else's money that has to be protected, and also because of the power that we have, as has been testified here before, to create money by the making of loans, and so forth, that the Government looks very carefully at this type of activity and therefore has imposed very strict regulations in the conduct of our business.

Q. Would it be possible for the Girard Trust Company, for example, or any other commercial bank of its character, to conduct business without deposits?

A. To conduct it without deposits?

Q. Yes.

A. It would be practically impossible. We would still have some capital if the stockholders permitted us to keep it, but if we did not have the deposits, we just wouldn't be in business.

Q. Dr. Harris referred to various types of regulation to which commercial banks were subject, in rather general

terms. I would like, if you would be good enough to do so, [fol. 3171] to have you refer to the nature and forms and types of regulation and how they affect the conduct of your business. You can divide it up in any way you choose, whether you describe it in terms, first, as the type of loans you have or the type of activities, but will you cover those in general terms and indicate just how this regulation works, what kind of control is actually exercised over your conduct of your own business, and what the effects are with reference both to your freedom of action and the amount of money that becomes available to you to lend in the course of your banking business.

A. Well, first of all, we are subject as a state bank to the regulation of the laws of the Commonwealth relating to banking, and we are also subject to the regulations that arise under the Federal Reserve Act. The Federal Reserve has issued many regulations regarding the conduct of our business. As a matter of fact, they have pretty well used up the alphabet. We start with A, and the only letters that have not been used up to date are X and Z, although W has been temporarily put to rest, because that was the regulation that affected so many of our lives following the war, when regulation W covered the extension of credit in the purchase of articles and endeavored to control inflationary prices following the war. There is a great debate as to [fol. 3172] whether maybe someday regulation W will again be reinstated. I hope not, personally, but, nevertheless, that is still a regulation that, though not in effect at the moment, might someday be in effect.

The other regulations, we only have two letters left in the alphabet. There are some very important regulations that affect our business directly. Regulation Q is one that we deal with all the time, because this has to do with the payment of interest on deposits, and this bars the payment of interest on demand deposits, and it also permits certain interest on time deposits.

Q. How is that administered so as to control the payment of interest on time deposits?

A. Well, interest on time deposits, the Federal Reserve Board fixes the amount of interest that you can pay on time money, either on time certificates of deposit or savings accounts. On savings accounts you may pay up to 3 per

cent under this regulation. On time money the rates are 1 per cent up to 90 days; from 90 to 180 days we may pay 2½ per cent; and over 180 days we may pay 3 per cent interest on time money.

Q. What supervision is exercised to be certain that you [fol. 3173] don't do anything that is contrary to that regulation?

A. Well, we are supervised very carefully by federal and state examiners. When they come in to examine our books they watch this very carefully. I might say we might be supervised by our competitors, too, because if anybody heard of our paying more than permitted under the Act, one of the supervisory authorities would soon learn of it, so that this just does not happen.

Q. Can you render any service to a time depositor other than repayment of his money and the payment of the allowed rate of interest?

A. No, we cannot. The Federal Reserve is also very careful, very certain, that in the handling of demand funds we do not give any extra benefits which might be considered to be indirect interest, such as going to a person's place of business and picking up his deposits, or anything of that kind. That would be considered as paying interest indirectly, and you are therefore prohibited from engaging in any extracurricular activities except those that logically fall in the everyday carrying on of banking business.

Q. You are policed in that field by the banking examiners, are you?

[fol. 3174] A. The banking examiners are very careful to look into that and never fail to comment on whether this is being observed or whether it is not.

Q. Is there anything more about regulation Q that you would like to mention?

A. I don't believe so.

Q. Well, now, treating separately all the other 23 regulations, will you describe the more important of them and how they affect the operations of your business.

A. Well, another regulation that affects us very directly is regulation U. Regulation U has to do with the making of loans secured by collateral, that is, stock exchange collateral, securities listed on the stock exchanges, where margins are provided as to the amount of money that we can loan for

the purpose of engaging in security transactions on the exchanges. At the present time under regulation U we may not loan more than 30 per cent to a borrower, that is, as to the value of his collateral. If the man wanted to make a loan with a thousand dollars worth of collateral, we could only loan him $300 under regulation U.

Regulation U also imposes upon us the necessity of asking the borrower just what his purposes may be, and we have to obtain, at the time of the making of each loan, a certificate signed by him, which we have to be convinced is [fol. 3175] signed in good faith, that this loan is not being made for the purpose of stock market transactions, and if we happen to overlook this at any time, it is one of the oversights that the banking examiners are very quick to grasp and say that we have failed to get a certificate under Regulation U.

The other regulations, running from A all the way through the alphabet, as I say, have to do with the types of loans—agricultural loans, mortgages, other items of that type.

Q. What about your consumer credit? How is that regulated?

A. Our consumer credit loans are regulated by state law. We cannot make a loan of more than $3500 and charge $6 a hundred, and also besides having the amount as a regulation and as a limitation, we may not loan for more than three years and charge $6 a thousand. If we loan beyond the three-year period, we have to charge 6 per cent simple interest on the whole loan.

Q. You said $6 a thousand.

A. I meant $6 a hundred, if I said a thousand. I am sorry.

Q. You said something about various special services. Did you have a service called a Charge-Write plan?

[fol. 3176] A. Yes, we do have a service now known as a Charge-Write Plan. This is a service to assist the small businessman. The small businessman, particularly in the suburban areas of the city and the suburbs, has a great deal of difficulty arranging to extend credit. This means he has to check the credit of the borrower, that is, the purchaser. He has to keep a record of the indebtedness due him. So we devised a plan known as Charge-Write, and we give a card to a qualifying user of that card allowing him to go into a great number of stores and charge his purchases.

The owner of the business deposits the sales checks with us for credit to his account, and then we at the end of each month bill the purchaser, the holder of the card, with the amount of accumulated purchases during the month.

Under this plan we thought that we would like to extend the terms of payment, because if the purchaser pays within 30 days there is no charge to him at all, but if he goes beyond that time it is necessary to make other arrangements. We thought that we could give the same kind of credit facilities that the department stores give, and we arranged to make a service charge, as they do, of 1½ per cent per [fol. 3177] month for each month. Usually we extend these payments for a period of five months to make payment of his entire bill.

Q. Is that charge imposed before the expiration of the first calendar month after purchases?

A. That charge is imposed after the first month.

Q. What is the profit to the bank for payments made within that month?

A. The bank made its profit by reason of the discounting, the charge for which the merchant had given credit. In other words, if he made a $100 sale, we would allow him to make a deposit to his account of $94—6 per cent discount—although in other cases where the volume was much greater we went down to 4½ per cent discount.

Q. So that the merchant then gave the discount which he might have given to the purchaser to the bank?

A. That is correct.

Q. And then the purchaser in that case did or did not have to have a deposit with the bank?

A. The purchaser did not have to have a deposit with the bank. We hoped that through that medium he might have a deposit with the bank someday but he didn't have to have one.

Q. What happened after the expiration of the month?

[fol. 3178] A. After the expiration of the loan, the process started over again, and usually this worked on a revolving basis, because people are buying something at the store every month.

Q. If he paid off at the end of the month, that was the end of it?

A. That was the end of it, yes.

Q. Suppose he didn't; then what?

A. If he didn't, we would agree to carry the account for a period of five months, during which he would pay back the total amount due in equal installments during the five-month period, plus the service charge of 1½ per cent charged by the department store.

Q. That was the same rate which the department stores charge?

A. That is right.

Q. Do they carry accounts in that manner?

A. Oh, yes, they carry a large number of accounts in that manner, and this is very profitable business for department stores.

Q. Then what happened?

A. Well, what happened there is that the Attorney General of the State of Pennsylvania looked into the plan and said that even though we were conducting it on the basis [fol. 3179] we were, on a charge account basis, that this was tantamount to a loan made as a personal loan, so we were ordered by the Attorney General and then the Secretary of Banking to restrict our charges on these delayed payments to $6 a hundred, so that we couldn't give the kind of service that the department stores gave to purchasers under similar circumstances.

Q. You couldn't make as much money out of it as the department stores?

A. No. As a matter of fact, it reduced our margins to the point where it is very difficult to make a go of it at the moment.

Q. Is it still in operation?

A. Oh, yes.

Q. What can you tell us about the limitations on your mortgage business?

A. On the conventional mortgage there are a number of limitations. We may not loan more than 50 miles from the borders of Pennsylvania.

Q. That is outside?

A. Outside of Pennsylvania. We may not loan more than 75 per cent of the appraised value. If the loan is not amortized, it may not be for a longer period than 10 years. If the loan is amortized, it must be paid off in 20 years; so

[fol. 3180] that our freedom of action in making mortgages is very much restricted by those regulations.

Q. What about the investments of the bank itself, securities and other paper that it buys for its own investment? I think you called them portfolio investments.

A. Portfolio investments?

Q. Is that the term that you use?

A. Yes.

Q. To describe the investments of the bank itself?

A. That is right. What we do not have in our loan portfolio we have in our investment portfolio, and as to investments, we have very strict regulations as to what we can buy. We may not buy stock. We do have to buy stock of the Federal Reserve Bank—that is part of being able to do business—but we may not buy any other stocks. We may not buy bonds except of a very high rating. Sometimes those bonds slip from those ratings. When the bank examiners examine us, there is always an unfavorable comment about any security that does not reach a certain rating as spoken of in investment circles. Actually this has the effect of largely restricting a bank to invest in United States Government securities, instrumentalities of the United States, and municipal securities in Pennsylvania and elsewhere which have certain ratings.

[fol. 3181] Q. You mentioned savings and time deposits and the limitation on the amount that you might pay for such deposits. Will you tell us something about the competition that you find exists for that type of money and how you are affected by such competition?

A. Well, the competition for savings deposits is very strong. This comes mostly from savings and loan societies and mutual saving funds, not only locally, but as to savings and loan societies there are great attractions held out to people to invest their money in savings and loan societies in their stock. Most people think they are making deposits in a savings and loan, but really they are not. They are buying an investment in the savings and loan, and they pay dividends rather than interest, but people have commonly begun to believe that dividends are really interest. These rates which are paid by the savings and loan societies are higher than the rates which we pay or which we are permitted to pay. The savings and loan societies in this area

pay around 4 per cent. Out on the west coast and some other places they pay 4½ per cent. The mutual savings fund banks pay 3½ per cent in Philadelphia.

Mr. Price: May I interrupt you a moment on this subject of the rates paid by savings and loans and let me show you [fol. 3182] an exhibit marked D-34.

(Document headed "Five Year Rate Survey of Savings Fund Interest Rates" was marked Exhibit D-34 for identification.)

By Mr. Price:

Q. Will you tell me what that exhibit shows.

A. This exhibit is entitled "Five Year Rate Survey of Savings Fund Interest Rates." It shows, for the year ending December 31, 1956, the rates being paid by commercial banks and also by the mutual savings banks and by the savings and loan associations.

Do you wish me to point out the rates that each are paying or have paid during those years?

Q. These are institutions in the Philadelphia area with which you are in most direct competition, are they not?

A. That is correct. As to the savings and loans, this is just an illustration of some of the interest payments which they make. There are a great many more than are listed here.

Q. These are by way of illustration——

A. That is correct.

Q. —of the type of interest rates with which you are in competition, but so far as the mutuals are concerned, those are the four in Philadelphia, are they not?

[fol. 3183] A. That is correct.

Q. And the commercial banks listed are those that handle such accounts in Philadelphia?

A. Well, actually there are more than are listed here. There are eight banks. Actually there are more banks that pay interest on deposits than are listed here.

Q. But these illustrate the rates that are paid by the Philadelphia commercial banks?

A. That is correct. Then besides the 1956 it shows the

same rates for the same types of institutions for 1957, 1958, 1959, and 1960.

Q. Will you just indicate the range in 1956 and how it has changed in 1960?

A. In 1956 commercial banks were paying 2 per cent, with the exception of one bank that paid one, and in 1960 those same banks are paying 3 per cent, with the exception of one, which is still continuing to pay 1 per cent. However, as to that one, it will be seen that they have less deposits by reason of not meeting current interest rates.

As to mutual savings banks, it shows they were paying 2¾ in 1956 and they are now paying 3½.

The savings and loan societies were paying in 1956 3 per [fol. 3184] cent in four of these instances and 3½ in another and are now paying 4 per cent in three instances and in two other instances 3¾.

Q. So that generally speaking the commercial banks pay less than the mutuals and the mutuals pay less than the savings and loans?

A. That is correct.

Q. Now, with reference to savings and loans outside of the Philadelphia area, are you in competition with savings and loans elsewhere throughout the country?

A. We certainly are. One needs only to look at the daily newspapers to see the attractions being offered, particularly by California's savings and loan societies.

[fol. 3185] Mr. Price: Will you mark this as D-35, please?

(Eight-page document, the first page being headed "The Philadelphia Inquirer," May 20, 1961, containing clippings of newspaper advertisements, was marked Exhibit D-35 for identification.)

By Mr. Price:

Q. I show you an eight-page exhibit marked D-35 and ask you if you will tell me what that represents.

A. This represents the very high-powered advertising that is appearing in magazines and newspapers endeavoring to attract savings from any area from which they can obtain it.

In conversations that I have had, I find that many people

are influenced by these ads. Of course, they wouldn't appear if they were not influenced.

It is unbelievable as to what appears in the ads. You can almost have any account that you like, a la carte; you can get it with or without dishes.

Here is an item where they sing for savers with a stainless steel tea kettle and so forth.

Q. That invitation as indicated by that exhibit is from California savings and loans?

A. Yes, this is largely from California.

Q. What do they pay or advertise?

A. They pay, in most every case, 4½ per cent.

[fol. 3186] Q. And how can you make a deposit in a California savings and loan in accordance with those advertisements?

A. All you have to do is clip the coupon, put your name on it, and send your check and you have an account.

Q. What can you tell me about the frequency with which advertisements of that sort appear in the Philadelphia and Eastern newspapers?

A. I see them in the paper almost every day.

Q. Have you an illustration? Mr. Reycraft asked if you had a newspaper. Do you have an illustration of how these things actually do appear in a newspaper?

A. Yes, I have one that I just read the other day, that just tops everything that I have read so far.

Here is one that says now you can invest almost any amount at 4½ per cent, for a 4½ per cent return on almost any amount of money, fully insured. Just send a single check to the Great Western Financial Corporation.

Q. That advertisement appeared where?

A. That advertisement was in The Wall Street Journal on the 7th of July.

They even have this rigged up so that you can get $100,000 worth of insurance on your deposits, because you can open it in your name individually and in your wife's name, as trustee for somebody or for yourself, and provide $100,000 [fol. 3187] worth of insurance, even though you happen to be the same person.

Q. Would you look at the third page of this D-35, where there are copies of three advertisements appearing.

They appear to be in the names of individuals. What can you tell us about that type of a person?

A. These on page 3 show that Oppenheimer & Co. will arrange this for you, who are members of The New York Stock Exchange; or Daniel Pollock or Joseph H. Meyers.

The savings and loans on the West Coast have made a deal with brokers such as this to get them deposits and actually the deposits came in such tremendous amounts from all over the country that the Federal Home Loan Bank, I think, finally issued a regulation and said that no bank could pay for these deposits beyond the extent, I think, of about 5 per cent of their deposits.

The inflow was so great that they felt that this would not be safe for the banks to receive the enormous amount of money that was flowing in through brokers.

I have a friend myself in New York who, in one year, had sent something like $60 million or $70 million.

Q. Now, in addition to the savings and loan and mutual savings banks, what other investment provides competition for time deposits and savings deposits in the Girard Bank? [fol. 3188] A. Well, besides these two sources, there's the commercial paper market, where you can buy commercial paper.

Q. In a word or two, what is commercial paper? What do you mean by that?

A. Commercial paper is really nothing more than a note signed by a very high-rated customer, that is, high-rated as to his credit, which is usually payable within a very short length of time, that pays an interest rate hinged to the rates that savings bring, for instance, and they will have this at a higher rate to make it a little more attractive so that you can buy paper of an outstanding company in the country or a finance company for a return which is not only certain, but is higher than might be obtained through any savings fund account.

Q. In what denominations are those notes usually issued?

A. They are in rather large denominations. I would say that they would probably be $100,000 and up.

Q. Are they of commercial companies, manufacturing companies, selling companies, or sales finance companies, or what?

A. All kinds of companies. It might be a manufacturer,

it might be a sales finance company, it might be a small loan company, it might be a railroad or something of that kind.

Q. And that, in the aggregate, is called commercial paper?

A. That is commercial paper.

[fol. 3189] The Court: Let's recess for 10 minutes.

(A recess was had.)

By Mr. Price:

Q. Mr. Brown, we were talking about commercial paper. I would like to ask you now how that is handled.

How do you get a piece of commercial paper if you want it?

A. Well, that's handled in one of several ways. You either have a commercial paper broker who makes these arrangements with you if you wish to purchase, or you have direct from very large companies, they have their own representatives handling the sale of their paper. You can get it for almost any period of time you want it. You could get it for ten days, you could get it for thirty days, ninety days, 180 days, whatever you might wish.

I would say the large issuers of commercial paper probably have their own representatives and when they do not it's done through commercial paper brokers.

Q. How long have the commercial paper brokers been in operation? Is that a relatively new development or has that been in existence for some time?

A. Oh, that's been in existence for some time.

Q. What does that do to the bankers as money lenders?

A. Well, of course, that is very stiff competition for [fol. 3190] bankers because the corporate treasurers of large corporations who have excess funds over their working funds find this a very convenient way to turn to get a better return than they could get in a bank for time money.

We are restricted as to the interest we can pay, as regulated by the Federal Reserve under certain periods, where there is no restriction on the commercial paper market at all. You just buy whatever is available or if it doesn't meet your convenience they will make it meet your convenience.

Q. Now going back some years to the time when you were allowed to pay interest on demand deposits, did this com-

mercial paper produce much competition for a bank's money?

A. I am afraid, Mr. Price, I don't really recall what the paper brokers' activities were in those days. This is back before 1932 or 1933.

Q. Then coming down to the time when you personally became familiar with it, what was the usual practice of treasurers of large companies with respect to the amount of money they kept in demand deposits in banks as distinguished from investments in commercial paper or other paper?

A. At the time when the banks could pay interest on demand deposits, treasurers kept large sums of money with banks for the interest which was paid. That interest would be usually about 2 per cent, and I can only assume that com- [fol. 3191] mercial paper brokers must not have been very active at that time or the banks wouldn't have had the huge amounts of money which were left there as excess funds of corporations in the form of demand deposits on which they only got an average of 2 per cent.

However, of course, this changed after the banks were prohibited from paying interest on demand deposits. The Government started to issue Treasury bills which were quite attractive.

Q. Had they been doing that before?

A. No, they had not. The Treasury bills have come in in relatively recent years, and I think really Treasury bills are more attractive to corporate treasurers than commercial paper.

There is a tremendous volume of Treasury bills bought by corporate treasurers. I know this because we keep them by the millions in our bank in safekeeping, pending some use of those funds; so that the commercial treasurer, the treasurer of a commercial enterprise, I think, probably now would first turn to Treasury bills as against commercial paper.

But once again, if the Treasury bill is not as attractive as commercial paper, treasurers are quick to turn from Treasury bills to commercial paper if there is a rate differential; and that is why you see so frequently in the papers that finance companies are moving their rates up and down. They are trying to keep it above the rate brought by [fol. 3192] Treasury bills.

I think the average corporate treasurer would rather buy a Treasury bill but he would always buy commercial paper if it produced more than the Treasury bill.

Q. These Treasury bills are short-term obligations of the United States Treasury, are they not?

A. They are very short term and can be sold at a moment's notice.

Q. And there is an active trading market for such paper, is there not?

A. There is an active trading market for such paper.

Q. Now how does that affect the bank's business with respect to competing for the deposits of large companies?

A. Well, this affects the banking business very adversely because the Treasury too is aware of the needs of corporate treasurers for investment of their funds and they try to keep the bill rate, that is, the Treasury does, within some reasonable relationship to time deposit money in a bank.

The average corporate treasurer wouldn't want to tie his money up for more than 180 days to get 3 per cent; he'd probably rather settle for something in the area of 2½, which we could pay for money less than 180 days.

In that case the Treausry bills would probably just about top the amount that we could allow so that they would turn [fol. 3193] to Treausry bills rather than to bank deposits.

Q. What do you find with reference to the shifting of money, either from time bank deposits to Treasury bills and commercial paper, with reference to foreign money, money from abroad?

The Court: Read that back. Just a moment. I lost a word there.

(The reporter read the pending question.)

The Witness: Money from abroad is sometimes characterized as "hot" money.

By Mr. Price:

Q. Hot?

A. Hot money. It pretty well illustrates the comment that most bankers know that money has no home, and the foreigner is always alert to getting the very best interest return he can get, whether it be in commercial paper, whether it be

in time deposits with banks, whether it be in Treasury bills, or else it might be—I might illustrate that point from a real experience that we have had with foreign time money, if you would like me to.

Q. Please do.

A. Well, during 1958 we, through our traveling activities in our Foreign Department, had been through Switzerland and Austria and Germany and Sweden, and also one of our other men had been in Latin America.

[fol. 3194] At that time it looked as though if we could pay 3 per cent for foreign time money we might accumulate quite a lot of it.

Q. By "quite a lot," what do you mean?

A. Well, we thought we might get some millions of dollars in time money. We had in mind that we might at least pick up $10 million in time money.

What we were up against, however, was that on January 1, 1957, the Federal Reserve, under Regulation Q authorized the payment of 3 per cent on time money. However, in the State of Pennsylvania, where this also has to be approved by the Secretary of Banking, he had only approved the payment of 2½ per cent on 180-day time money.

The money market shifted quite a lot in 1958. There was easy money in the beginning of 1958 and rather tight money toward the end of 1958.

As our men were making these travels around the world, it appeared that as the market for money was stiffening, that if we could somehow or other pay 3 per cent we could probably get something on the order of about $10 million in time money from foreign banks.

We solicited the interest of the Philadelphia National Bank, it so happens. We were not thinking of merger at that time.

In endeavoring to join with us and having the Secretary of [fol. 3195] Banking raise the rate in Pennsylvania from 2½ per cent to 3 per cent to get this time money we found, as we expected, that the Philadelphia National Bank had, in this latter part of 1958, $9,100,000 in time money and they were quite concerned about it because they had already had notices from their depositors to the extent of some $2,700,000 that would be withdrawn, so that Mr. Potts

finally wrote a letter in which we participated (Mr. Potts signed the letter) to the Secretary of Banking.

Q. When you say "we participated," that is who participated?

A. That is Mr. Geoffrey Smith and myself at our bank—in which we made quite a plea to the Secretary of Banking that because of this New York competition, particularly at 3 per cent, he might give consideration to allowing us to pay 3 per cent, if it only be on foreign time money. We were not urging upon him the change in the time money rate for all time money.

However, Secretary Myers couldn't see it that way at the time, so that from evidence which we learned from Mr. Potts what had happened to him previously, when the rates changed in January of 1957 (January 1st) in New York, Mr. Potts had on deposit $3,700,000 in time money. By June of that year, after the New Yorkers were paying 3 per cent and we were only paying 2½, their deposits had slipped down to $750,000.

[fol. 3196] However, money did loosen in the early part of 1958, as I have said, and the New York banks decreased their rate which they paid from 3 to 2½, and this meant that money started to flow into Philadelphia, and particularly into the Philadelphia National Bank. As I say, they had $9,100,000 of time money by September of 1958.

Q. Just on a difference of one-half of one per cent?

A. On a difference of one-half of one per cent.

Finally, we were able to get Mr. Myers, the Secretary of Banking, in October of 1959, to increase the rate that could be paid on time money in Pennsylvania to 3 per cent.

Meanwhile, Mr. Potts', Philadelphia National Bank, time money had slipped from $6,400,000 at the end of 1958 to $4,850,000 by March of 1959.

So when Mr. Myers came through with the 3 per cent rate we, of course, immediately stepped out to get time money. As of this date we have something in excess of $7 million in time money; Mr. Potts in the Philadelphia National Bank has in excess of $21 million in time money.

Now we are running in quite a hazardous area at the moment. Our friends in New York are agitating a change in the 3 per cent rate. They either want the ceiling taken

off entirely or they would like to have an increase beyond [fol. 3197] 3 per cent.

I don't believe Secretary Myers will be in any such mood; and if this does occur (and it is a constant threat) our $7 million and the Philadelphia National Bank's $21 million will go out of here just as fast as it can possibly go over to New York to meet the favorable rate which they will pay.

So I have given you this illustration. I hope it hasn't been too long, but it shows so well that money just has no home, and this is particularly true of foreign time money.

Q. Were these figures that you mentioned all foreign time money?

A. This is all foreign time money, yes.

Q. So it had nothing to do with any domestic deposits of domestic banks?

A. No, it had nothing to do with domestic deposits whatever.

Q. Is there much foreign money, much money from abroad, coming to this country to be invested, either in time deposits or in short-term Governments or commercial paper?

A. Oh, there are tremendous sums. I have seen the New York banks lose as much in six months as $150 million from individual banks; and in this case the foreigners don't stick to the 3 per cent rate. If they see Treasury bills move up [fol. 3198] to, say, 3½, that would be a signal to start moving out of time money in banks and moving into Treasury bills.

If they can find it better some other place, the money goes to that other place. There is no keeping it in control here at all.

I mean, you can't keep the money; it just moves out.

Q. Dr. Harris spoke about the apparent unwillingness of people to walk across Broad Street to get a half of one per cent on their savings deposits. That apparently is not the case with foreign banks?

A. That certainly is not the case with foreign banks. As a matter of fact, I heard Dr. Harris say that, that depositors would not walk across the street for another half of one per cent.

I would say that the average depositor in a savings fund account would not. For instance, we have 120,000 saving

fund depositors, and this adds up to about $116 million in deposits. This means that the average deposit is less than $1000 in these accounts.

I would say until a man has $1000 (and most of them, of course, have less) he wouldn't walk across the street for a half of one per cent because it doesn't mean anything.

[fol. 3199] But my own experience is that as soon as a person starts to accumulate some money and gets in a position of being averse or instead of a savings fund depositor he walks across the street, and very quickly.

We lose a great deal of money to the mutual savings fund accounts when sums of money start to be accumulated. We can hold it until it gets to be a sizable sum, and except in very exceptional cases we just can't hold it.

Q. Now you are talking of as much as $150 million going out of one New York bank.

Roughly, give us some idea of the magnitude of this foreign money that is sent over here for this type of investment.

A. I would say that this foreign money is somewhere in the neighborhood of about, I'd say about $7 billion or $8 billion.

Q. And is that amount currently in this country for this short-term investment?

A. Yes, it is.

Q. And you are speaking now entirely of short-term as distinguished from long-term investment in either bonds or stocks?

A. Oh, yes. I am only talking about the money that is here for very short-term investment in Treasury bills or in time accounts in banks.

[fol. 3200] Q. And by "short term," is that less than six months or some shorter period?

A. I would say that the average is probably six months.

Q. What areas of this cou[illegible] is that money sent to by the foreign banks or foreign investors?

A. It's sent to any area in the country that can pay the most money for it.

Q. And by "most," what difference in rate is enough to attract or not to cause a substantial flow of money from one place to another or from one form of investment to another?

A. I would say a quarter to a half of a per cent.

Q. Now you spoke about short-term bills, Government bills, three months, six months, 90-day paper.

Do Government issues provide competition in addition to that type?

A. They certainly do.

Q. Will you say something about that?

A. Well——

Q. And I am speaking now primarily of time money, I imagine.

A. Yes. Well, time money is very much affected by Government offerings of securities.

We had a great experience with that, really not too long ago. The Government came out with what were known as "magic fives," I think Dr. Harris called them "golden fives."

[fol. 3201] So whatever they might be called, they made the longest lines in front of our saving fund windows that anything has possibly done in a long, long time.

In addition to that, our demand——

Q. You mean your savings fund depositors would take their money out for those?

A. They certainly would. That 5 per cent, if they had any sizable money in their account, a Government security due in less than five years that would pay 5 per cent interest was just too much a temptation.

As a matter of fact, our demand depositors in large numbers—we had lists and sheets and sheets of names of people who wanted to take their money out of our demand deposits and put them in these "magic fives."

Q. The "magic fives" were for what term?

A. They were just short of five years.

Q. And paid 5 per cent?

A. And paid 5 per cent. Of course, there has been nothing really as good as this for a long time.

Q. All right. Aside from these "magic fives" of which you say there was only one issue, what other type of Government obligations provide competition for time or savings accounts?

A. Well, other types of Government securities, Series E bonds. They are bought in great quantities by individ-

[fol. 3202] uals. They pay them 3¾ per cent.

Other issues of Governments pay the same amount of money, and they have a floor under them as far as any loss of principal. You are penalized when you surrender them before the maturity date, but you still get a very good rate of interest, so that many people are buying Government securities instead of putting these moneys that they have into savings funds and banks.

Q. How has this affected the type of deposits that commercial banks now hold in large volume? How does it affect, if at all, the ratio of demand deposits to time deposits?

A. It has really affected commercial banks very seriously. We find that each year we seem to go along fewer and fewer people are carrying smaller sums in demand deposit accounts and they are carrying more money in time deposit accounts.

Our deposits, for instance, haven't shown a great deal of growth in the over-all during the last five years, but we have gained more than $50 million in saving fund accounts during the last five years; so that this illustrates somewhat the fact that savings fund deposits are getting to be the life blood of a bank because it is in this area that people are willing to put money in banks, rather than on a demand basis.

It is a serious problem for the commercial banks be- [fol. 3203] cause the people seem to be more and more alert to the possibility that they can employ their dollars at a rate which will produce some return for them. We are finding more and more people who are putting their money in savings and loans and mutual savings funds and commercial banks in the Saving Fund Department and treating it like demand deposits. Competition is so strong that within reasonable amounts you can get any of these banks where you put the money in, without the privilege of withdrawing for two weeks or 30 days——

Q. When you say banks, do you mean mutuals?

A. You go to mutuals, you go to savings and loans, you go to commercial banks, and your money can be earning something and you really have it there, with a ready call on the money that you really need; so that people—I suppose you might say—are getting a little smarter as to the possibilities that they have of earning interest which they

use to some advantage, rather than having it in demand deposit accounts.

Q. Have the commercial banks any control over that type of competition?

A. No.

Q. You spoke of savings deposits. I will ask you now whether you include in that general term time deposits as well.

A. No, I was just speaking of savings deposits at the time.

Q. Then will you tell me what effect this type of com- [fol. 3204] petition has on the ratio of demand deposits to time deposits?

A. Well, this has always been a difficult problem for the banks. This has been true for some time. We are finding every day seems to bring a new change attitude on the part of the corporate treasurer and he not only runs the corporate affairs of his business, but he sees what he can earn with any excess funds to pay the cost of running his department in a company; and this, of course, is something that accrues to his benefit in the overall doing of his job.

So that we find more and more demand for time money coming in from corporate treasurers, and particularly too from municipalities. Municipalities any more keep very little money with you on demand. They seek the time basis, whether it only be one per cent, 2½, or 3.

[fol. 3205] Q. And then what does that do to the volume of demand deposits that you have in the bank?

A. Well, all it does to that is just to continuously decrease the amount that you have in demand deposits.

Q. Does that in general cover the subject of the competition that you have for cash?

A. Well, in addition to the things that I have mentioned, of course, we have the mutual funds, which are constantly pushing the sale of their particular form of investment, and this has a direct bearing on both our demand and our time deposits as we find more and more people buying mutual funds. We see a fund like the Wellington fund grow in a relatively few years to be over a billion dollars, and we also have funds like the monthly investment plans provided by the New York Stock Exchange, where people invest

their funds on a monthly basis rather than making a deposit in a saving fund account in a commercial bank such as ours.

Q. I was thinking in this connection at this point in your testimony, Mr. Brown, more in terms of the kind of competition that is produced by Government regulation or Government limitation. You described Secretary Meyers' regulation which cost you and the Philadelphia National so much. Is there anything else of that character or of a [fol. 3206] regulatory character that provides artificially competition for the bank's money?

A. Oh, yes, I understand. Well, in addition to the regulations that we have been mentioning, are you referring to regulations as to the establishment of branches?

Q. No, I am thinking more now of the limitations over your actual uses of money and the rates that you can charge for it as contrasted to the rates other people can charge for it, over whom you have no influence or control.

A. Well, what you must have in mind is the matter of the rates that we can charge interest, which is affected by the federal rediscount rate and by the prime rate. In this case the activities of the Federal Reserve in making money plentiful or tight has a great effect on the amount of interest that we can charge. They use the vehicle of the rediscount rate to influence, among other things, interest rates. If they reduce the rediscount rate, it is almost certain that the prime rate will follow in the same direction. Also if they engage in open market transactions in the sale or purchase of Government securities, this tightens credit or loosens it, so it is Governmental control, really, of interest rates. 4½ per cent, for instance, at the present time is the prime rate, and that is a rate which is available to borrowers who have the highest credit rating. In be- [fol. 3207] tween that 4½ per cent rate and the usury rate of 6 per cent other borrowers charges fall. If the borrower is a medium-sized company with a good credit rating, he might pay a quarter or a half of 1 per cent more than the prime rate. If the borrower's credit is perhaps not as good as the person's I have just mentioned, that might call for another raise in rate perhaps to 5 per cent or even up to 6 per cent, if, in fact, the borrower is not able to carry a sizeable balance with the bank, that is, a balance in his deposit account, or his credit rating is such that we

have to charge him the highest rate, which is 6 per cent, so that we have definite limitations as to where we can go in the charging of interest.

We can charge less than 4½ per cent—there is no law against that—but no one does, because it is an eternal battle to make a profit, so you don't charge less than the prime rate, and you charge in between the prime rate and the 6 per cent to other borrowers.

I know Dr. Harris was questioned about whether you could charge a corporation, if they were agreeable, a higher rate than 6 per cent, and it is true that you can, but those are the very unusual instances, and you very seldom charge anybody more than 6 per cent interest.

[fol. 3208] Q. What you described here is an indirect effect of Governmental regulation. What can you say about the more direct effect of the limitation of the amount of cash in your vaults available for lending purposes at all by virtue of Government regulations of one kind and another?

A. Well, by virtue of Government regulations we have to carry a reserve with the Federal Reserve Bank on both demand and time deposits. This is 16½ per cent of demand deposits and 5 per cent of time deposits.

Q. That is a Federal Reserve regulation?

A. That is a Federal Reserve regulation.

Q. And it is imposed upon every member of the Federal Reserve System?

A. It is imposed upon every member of the Federal Reserve System.

Q. How does that operate? What is its effect on you?

A. Well, its effect on us is that when we take in a dollar of demand deposit, we have to isolate 16½ cents that we can use and have this amount on deposit with the Federal Reserve Bank or have it in our till in our offices. The net result of carrying such reserves is a very heavy burden on our ability to earn money, because in a bank like my own, where we would have deposits of, let us say, $675 million, our reserves on a daily basis would run [fol. 3209] in the area of about $85 million, so that there would be $85 million that we just have to isolate and cannot use at all except as having it part of our reserve, from which there are no returns.

Q. Does that same limitation, same percentage, apply to all banks?

A. No, it does not apply to all banks. There are various classifications. Country banks carry a lesser reserve than city banks.

Q. That means they can lend more out of every dollar of deposits?

A. That is right. I think the country bank reserve today is 12 per cent as against our 16½ per cent.

Q. Is the 16½ per cent the highest or the maximum which the Federal Reserve Bank can establish?

A. No, it is not. The Federal Reserve could increase that reserve, which would have the effect of cutting down more of our investable funds, and it is one of the vehicles they might use to restrict credit. By increasing the reserve they would restrict credit. By decreasing it they would increase credit.

Q. Do you know what the maximum percentage is to which the Federal Reserve can go under the law?

A. Mr. Price, that has just been changed. I am not [fol. 3210] quite sure. It is something in the area that the Federal Reserve can reduce rates I think down to about 12 and perhaps can put them up to about 22. It is something in that area of motion that they can make, but at the present time it is 16½ per cent.

Q. Now, within that range of 12 to 22 per cent, using that in round figures, what is the effect on the banking business of changes made by the Federal Reserve in the quantity of reserves banks must retain?

A. It has a very severe effect on us. If they would increase that reserve, our lending ability would immediately be reduced. These monies would be isolated. We can't use them for investment or lending or anything of the kind.

Q. So that irrespective of the actual number of dollars you may have, the amount you may lend is controlled by this reserve feature of the Federal Reserve?

A. Yes, that is one of the controls. There are other controls too.

Q. I just want to be sure we understand how that one operates and what it can do to the amoun. of money that your bank may lend to borrowers who want to borrow.

A. Well, in answer to the question, if the Federal

Reserve should increase the reserve, this would sharply reduce the amount of money that we could lend or invest. [fol. 3211] Q. Now, speaking generally in terms of credit, what does that do to credit?

A. Of course, if the reserves are increased, there is that much less money—that is a tightening of money—and we would have that much less to lend, and that would make the interest rates go up.

Q. And you have no control over what is done in that field?

A. Not the slightest.

Q. What other type of regulation are you subjected to which affects the amount of money that you may lend out of the general pool of funds that you have in the bank in the form of deposits or general resources?

A. Well, of course, there is the general regulation which prohibits us loaning more than 10 per cent of our capital and surplus to any one borrower, and then too you find that a bank must key its loans to the amount of its capital and its surplus. We use as a rule of thumb in our bank—and I think a number of other banks do too—that you really should have a ratio of about 6 to 1 in the making of loans. In other words, if you had a capital of $70 million, you would be limited by this rule of thumb to about $420 million in loans or other risk assets. By other risk assets I mean securities other than Government bonds, such as [fol. 3212] municipal bonds.

Q. You are not talking about stock?

A. Not talking about stock at all, because we cannot buy stock, but because there is a general pattern throughout the country of having a ratio of capital to loans, no one varies very far from that ratio, because in the banking business you can't afford to be out of style or out of pattern, because corporate treasurers and insurance company treasurers keep a regular score sheet on how you conduct your business, and if they find that you are loaning too much in relation to your capital and surplus, they very pleasantly but firmly remind you of the fact that you seem to be venturing a little far from what might be called a conventional ratio.

Q. What happens if you don't mend your ways?

A. They might very well withdraw their deposits, which, of course, would be the worst thing that could happen to us.

Another measure of the kind of loans that you can make has to do with the amount of deposits you have. I would say that the general pattern is in banking in Philadelphia and elsewhere that you don't find many banks loaning more than 60 per cent of the deposits in the form of loans or investing in other types of securities, like municipal [fol. 3213] securities. If their capital ratios, which I have just mentioned, of about 6 to 1 to risk assets, is not strong, then you would find the bank would not loan as much as 60 per cent, but when you get in the position where you are loaning more than 60 per cent of your deposits, once again the corporate treasurer and the insurance company looking at the score sheet think you are getting in an area where you shouldn't be extending your loans much farther, so that there is a definite question of adhering to the pattern which good, stable, or conservative banks follow; and then, too, when the bank examiners come in to see us, from both the Federal Reserve and the state, they are very familiar with the capital position of other banks and the deposits of other banks, the loan ratios, and they are very quick to point out that you are either out of line or out of step, and this too has a sobering influence on anyone who is making loans, when you have the bank examiners suggesting that you are perhaps loaning more than what might be considered to be par. This has a great restraining effect on the nature of your loans or your investments.

Q. Have they the authority to direct you to change the proportion which you have invested in loans if they consider it too high a percentage?

[fol. 3214] A. Yes, they do have that authority. I think they would be reluctant to exercise it, but no one dares to go too far out of line because you don't want to take that risk.

Q. Then that is a Government regulation, but this other influence which you spoke of, corporate treasurers and their authority to withdraw funds is a practical limitation?

A. Oh, yes, that is entirely practical. There is nothing in the law that I know of that would prevent a bank from loaning a hundred per cent of its deposits, but it had better

not do it or it would be so out of style that it would lose deposits on all sides if the public who has entrusted their money to them feels that they are going overboard.

Q. What other limitation, either practical or legal, is there upon the use of the money that you have in the till. What other procedures are there which prevent you from using that money for loans? I am speaking of collections and items of that sort.

A. Of course, when a bank has deposits, such as my bank, which today has about $675 million, you have funds that are uncollected. These are funds put in your bank by depositors, where you have to collect the funds from other banks. [fol. 3215] These run into very large amounts. I think just in the last day or so our uncollected funds have been running in the area of about $40 million. Correspondent banks send you deposits that you haven't yet collected. This is not real money. You can't, of course, use it until it is collected and becomes available. So that your reserves, say in a bank like ours, of say $85 million, you have uncollected funds that would range to 30, 40, or 50 million at times, so that you would have, even in a bank that is strongly capitalized, like mine, you probably, out of $800 million in total assets and liabilities, you wouldn't have more than about $600 million that you could invest.

Q. What about deposits from Governments and municipalities and the requirement to keep reserves against those particular deposits?

A. Well, as to deposits of municipalities and Governments, we have to pledge our Government securities against those deposits, so this in effect does have a bearing on our investment program, because we like to get these deposits. We like to get anybody's deposits, but if we can get them from the Government or from municipalities, we have to have enough Government bonds to pledge so that those deposits will be secured, and this in turn does not give us [fol. 3216] too much freedom of action of what we do with our Government bond portfolio.

Q. That is another item that is withdrawn in your free use?

A. That is right. We don't have the freedom to move around, because if we would come to the day that we didn't

have any governments to pledge, we would be in a lot of trouble with our depositors.

Q. What about the requirement of the Federal Reserve itself with respect to purchase of stock in the Federal Reserve Bank?

A. Well, the Federal Reserve Bank requires that we buy stock in the Federal Reserve. As a matter of fact, I think the law provides that you are liable for 6 per cent of your capital and surplus to be invested in the capital stock of the Federal Reserve Bank. However, up to date they only made a 50-per cent assessment, so that you only have to have 3 per cent. So in a bank like mine we have $60 million in capital and surplus, so we have to have an investment in Federal Reserve stock to the extent of $1,800,000.

Q. Are there any earnings on that stock?

A. Yes, the stock pays 6 per cent, but there is no freedom of action as to whether you like that 6 per cent or not. You have to have the Federal Reserve stock in order to be [fols. 3217-3218] a member of the Federal Reserve.

Q. Is that in addition to the reserves that are required that you mentioned a while ago?

A. Oh, yes, that is in addition to that.

Q. What is the freedom of your bank to borrow money to conduct its normal operations?

A. We have a very limited ability to borrow, and in this we are so different than a manufacturer or someone in the mercantile business. For their expansion, for their development, borrowing is the course to which they turn. In a bank you may only borrow from the Federal Reserve Bank, and that is a privilege and not necessarily a right, and you are not expected to borrow from the Federal Reserve just because you can make a good loan. It is very tempting at times. Perhaps you see a chance of making a good loan and you might like to borrow some money to arrange it, but because we are limited to almost immediate repayment of monies borrowed, we of course do not do this, and if we did it for any extended period, the Federal Reserve would be very prompt to tell us we should get out of debt.

The Court: We will continue tomorrow morning at 10:00.

(Adjourned at 4:00 o'clock P.M. until Wednesday, July 19, 1961, at 10:00 o'clock A.M.)

[fols. 3219-3220] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

NINETEENTH DAY

Philadelphia, Pa., July 19, 1961

Before Hon. Thomas J. Clary, J.

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[fol. 3221] The Court: I think I had better announce at the outset that Judge Ganey has called a special meeting at 12:00 o'clock, so I will have to recess at that time for lunch.

GEORGE H. BROWN, JR., resumed.

Direct examination. (Continued)

By Mr. Price:

Q. Mr. Brown, when we adjourned yesterday you were talking about various limitations on your activities imposed by regulatory authorities, and there are only two more that I would like to ask you to consider, and one is the way the balance sheet of the bank must be maintained, with particular reference to loans and what the regulatory authorities determine with reference to how you carry loans.

A. Well, the Federal Reserve Bank and the Secretary of Banking, particularly the Federal Reserve Bank, outline the general nature of how our balance sheet should appear. To illustrate the kind of controls that they exercise in that regard, in recent years the practice of entering into repurchase agreements: These repurchase agreements work two ways. Either someone is selling us securities, with an agreement to buy them back, or we sell our securities, with an agreement to buy them back. We felt that [fol. 3222] it would not be necessary, in selling our securities, and having an agreement to buy them back, that we should list that on the balance sheet in any way other than to show the receipt of the cash and the fact that our securities had been reduced, but the Federal have made it necessary to list under loans that type of transaction, so we have to list our repurchase agreements where we have made sale of our securities, to buy them back, actually as a loan of the bank, as opposed to the way an ordinary business would handle such a transaction.

Q. So that the loan list includes such items along with what you normally would consider as loans?

A. That is correct.

Q. Now, with reference to the classification of loans as doubtful, good, and so on, what do they do in certain circumstances with reference to loans which they may consider less than perfect?

A. Those circumstances arise out of the examination of our bank. All of the loans that we have are carefully examined by the bank examiners. If they feel that they are not supported properly by credit reports, or the fact the borrower may be having some difficulty, they make various classifications of whether the loan is criticizeable, whether it is doubtful, or whether it is likely loss, and where they [fol. 3223] believe that a loss is involved, we are instructed to charge that off our books, which we must do in order to comply with their regulations, so that this, naturally, has the effect of removing that asset from our books, whether we think the time has arrived or not to remove it from our books.

Q. Whether or not it may be subsequently paid in full?

A. It may — subsequently paid in full and ofttimes is.

Q. You made brief reference to branches yesterday, and

I don't want to go into it again beyond merely asking you to tell me whether limitations are on the bank's ability to establish branches.

A. There is a definite limitation on the bank's ability to establish branches. In the City of Philadelphia we notify the Secretary of Banking and the Federal Reserve Bank of our plans, and the Secretary of Banking must give his approval if we are to establish a branch, which he only gives after he has satisfied himself that that particular area is not overbanked.

When we go over the county line into the three counties where we may go—Delaware, Montgomery, and Bucks—we have to file an application likewise with the Secretary of Banking and notify the Federal Reserve. In that case the [fol. 3224] same kind of consideration is given to whether the branch should be established, but there is a very important step in between. Any bank, any unit bank, which is doing business in those counties is afforded an opportunity to preempt our location, and we perhaps would not be permitted to go there if a local bank wanted to establish itself in the particular part of the county that we wished to establish ourselves. Also, if you go over the county line, this is something too that comes to the attention of the Banking Board.

Q. This preemption, in effect, gives them first choice on a site which you may pick out?

A. That is quite right.

Q. Like a prior offer?

A. That is correct.

Q. Then so far as the ability to compete freely is concerned, does that exist or does it not?

A. No. In connection with the establishment of our branches, we can only establish them where the regulatory authorities decide that there will not be undue competition.

Q. Mr. Brown, you referred yesterday to the prime rate as a rate of interest that is charged to best borrowers. Did you tell us who establishes that or how [fol. 3225] it is established?

A. No, I do not believe I did. The prime rate is established by the larger banks of the country. This usually originates in New York, where one large bank, in the light of the then money conditions, decides that the prime rate

should be reduced or increased, and in that event, as soon as they announce this, others are quick to follow all over the country, so that once a large bank takes this step in either direction, this is the prime rate for all of us. We have no influence whatever, as far as a bank here in Philadelphia, as to what the prime rate is going to be. We must accept the prime rate fixed by the leading banks of the country.

Q. When you say the leading banks of the country, about how many are there that are big enough and leading enough to fix the prime rate?

A. I would say about ten.

Q. And are any in Philadelphia?

A. There are none in Philadelphia.

Q. And they are where, what cities?

A. Well, they would be in New York, in California, in Chicago, Illinois, and those money centers, and would be the very large banks in those areas.

Q. The largest of the group?

[fol. 3226] A. The very largest of the group.

Q. And the larger number of banks that can fix the prime rate are in what city?

A. They are in New York, and they usually fix it in New York.

Q. When the prime rate is fixed, is it announced by more than one bank at a time?

A. No, it is announced by one bank at a time. There is a quick succession of announcements, and as soon as there is an announcement by one bank, all day long other banks all over the country are announcing a reduction in the prime rate.

Q. That prime rate as announced by some bank in New York becomes the prime rate for the whole country, does it?

A. Yes, it does.

Q. Do you know of any instances in which the announcer of the prime rate changed its mind quickly and decided it made a mistake?

A. I am not familiar with the specific instance, but I think that there was an occasion where one of the banks did change the prime rate and then found that they weren't immediately followed and, of course, had to go back to

the arrangement that existed before. I am not just certain when that occurred.

[fol. 3227] Q. Do you recall more than one occasion of that nature?

A. No, I do not.

Q. So that, in general, you may say that when the prime rate is changed, it stays changed?

A. When the prime rate is changed, it stays changed, and there is very little you can do about it. I might just say, Mr. Price, that in my own bank sometimes, when we have seen the prime rate change coming, and this is usually signalled by a change in the Federal Reserve's rediscount rate, and we find ourselves pretty well loaned up, it doesn't seem to make much sense to reduce the prime rate, because we don't want any more loans, and it seems only reasonable that the prime rate should, as far as we are concerned, not be reduced, and we have even gone so far as to resolve that if a customer comes along on his next loan and he inquires about the rate, that we will explain to him that we are very heavily loaned and that there seems no reason to change the rate.

Well, that resolve lasts until we get the first telephone call, and they say, "Very well, we can understand your position, but we are going to New York or elsewhere."

[fol. 3228] We say, "Well, really, the prime rate is changed here. The prime rate is just the same as it is every other place."

Q. You mentioned the Federal Reserve. What effect has the Federal Reserve rate or the rediscount rate on the establishment of the prime rate?

A. That has a very strong effect upon the prime rate. The rediscount rate is the rate at which banks may borrow, and when they——

Q. Borrow from where?

A. May borrow from the Federal Reserve, and when the Treasury and the Government are anxious to stimulate business and they want rates pushed down, the first move in that direction is usually to get the Federal Reserve banks of the country to move down the rediscount rate, and as soon as that is moved down, of course, the first thing the newspapers start talking about is, how soon is the prime rate going to follow the rediscount rate?

That doesn't help our situation very much, because it is shortly thereafter that somebody will feel that in order to cooperate with the Government and in order to help [fol. 3229] stimulate business, which is the reason for lowering the prime rate, well, we join the band wagon and have the prime rate reduced by the lower banks, and all the other banks in the country join that.

Sometimes some smaller banks might not do that, and I have an interesting illustration in that regard to show what happens to one who does not reduce the prime rate or follow the interest rate pattern fixed by others, if you would be interested in hearing it.

Q. Well, just before you give the illustration, has the Girard or any other bank in Philadelphia any control over that situation?

A. We have none whatever.

Q. It is initiated by the Federal Reserve Board itself?

A. The Federal Reserve Board pushes the rediscount rate up or down and that affects the prime rate.

Q. And that follows up or down likewise?

A. Depending in which direction it is going.

Q. The illustration which you were about to give is one relating to this subject of determining the prime rate?

A. Yes, it is.

Q. Would you do that, please.

[fol. 3230] A. This relates to a very interesting situation out in Columbus, Ohio. There was a very rugged individual who was president of that bank. He became president in 1935, and he decided that the prime rate in his bank would be 5 per cent, 5 per cent and up, that he would not take any loans unless they paid 5 per cent or more.

Actually, what happened, this started in 1935 and was persisted in until 1958—as a matter of fact, early in 1959. What happened was this: All of the national account business that he had in connection with loans moved away from him. He was driven into loaning on commercial loans that would pay 5 per cent or more. This meant that no prime names, the prime companies of the country, would borrow from him. It drove him out of the mortgage market. He was unable to get mortgages.

In 1958 he died, in November of that year. At the close of the year that man's portfolio consisted of $40 million

in cash, $75 million in Government bonds, and $32,400,000 in loans. This is a loan position of about 22 per cent. In fact, 10 years before, in June of 1950, he had $90 million worth of deposits in his bank, and he only had loans of $15,800,000. He was loaned then up to the extent of about 16½ per cent.

[fol. 3231] This, as I have indicated, drove him out of the kind of business where people had a choice of rates and pushed him mostly into the matter of making budget or installment loans. These were consumer credit loans and loans of commercial enterprises that would pay 5 per cent or more.

Right after his death occurred, as far as his loan breakdown was concerned, he had $17,500,000 in commercial loans, he had $13,300,000 in budget loans or installment loans, and he had a million six in mortgages. Six months after he died—and this is in 1959—the bank turned its whole policy around and recognized that there was a prime rate in the country. The new management has now gained back many of the national names that they lost, and on June 30 they had a total, as against 32 million 4 in loans in 1958, they had $59,300,000 in loans, broken down $30,100,000 in commercial and industrial loans, $21 million in budget and installment loans, 8 million 2 in mortgage loans, for a total of $59,300,000.

I think this illustrates pretty well that if anyone tries to impose his will about interest rates, what happens to him.

[fol. 3232] Q. These loans that he obtained or that the bank obtained, paying 5 per cent or more, were loans that paid 5 per cent or more to anybody?

A. That's right; they paid 5 per cent or more to anybody.

Q. Do you recall the loan condition of the bank when he started? You told us the loan condition of the bank when it ended. Do you know what it was when he first fixed 5 per cent as the minimum rates he would charge?

A. Back in 1935?

Q. Yes.

A. No, I do not know that, but I do know that in 1960, with $90 million in deposits, he had only gotten up to $15,800,000 in loans.

Q. Professor Goodman, in portions of his testimony, expressed the opinion that a bank could establish rates of interest and impose its will as to rates of interest on other borrowers and other banks.

What is your opinion on that subject?

A. Well, I would say theoretically that Dr. Goodman was right; you can fix rates that you wish to fix and try to impose your will.

The only thing that happens is that when you do it you wouldn't have any loans. That would be the net result of that kind of activity.

[fol. 3233] By the Court:

Q. The answer is then that he is right, but he has a Pyrrhic victory; is that it?

A. That's correct.

By Mr. Price:

Q. In connection with the activities of the Federal Reserve and the result of those activities on interest rates, what can you say about open-market operations——

The Court: Just a minute. Let's go back to that question again. I am not so sure.

Read the question back that was asked.

(The reporter read the question as follows:)

> "Q. Professor Goodman, in portions of his testimony, expressed the opinion that a bank could establish rates of interest and impose its will as to rates of interest on other borrowers and other banks."

The Court: And other banks?

Mr. Price: On borrowers and on other banks.

The Court: On borrowers at other banks?

Mr. Price: On borrowers and on other banks.

The Court: On borrowers, he can impose his will?

The Witness: If they will accept it, he can impose any will that he wishes.

[fol. 3234] By the Court:

Q. But did you answer the question as to "on other banks?"

A. No, I am afraid I didn't answer that if the question said on other banks.

Q. It did.

A. Thank you.

As to forcing interest on other banks, a bank would have no possibility whatever of enforcing the rate of interest that another bank charged. That would be entirely their own business, but once again that other bank is tied in just as our bank would be with the prime rate situation, and so that they would have to accept, if they intended to do business, the rates fixed by others who were not really connected with them at all in the form of the Federal Reserve's activities.

By Mr. Price:

Q. Well, fixing interest rates is limited to your own bank?

A. That's right. You could theoretically fix any rate under the law in your own bank; there is no question about that.

Q. And you could take whatever business will come under that situation?

A. You certainly can.

Q. But so far as my question is really directed to the ability of a bank, let's be more specific here, the merged [fol. 3235] bank. If the Girard and the Philadelphia National Bank merged, would that merged bank have any power in Philadelphia to impose its will as to interest rates on any borrowers of any other banks?

A. No, we certainly would not.

Q. Or on any other banks?

A. Or on any other banks.

Q. They could fix their own rates, of course?

A. We could fix our rates, and we could say that's what it would be; but if it was not the going rate nobody would come in to get that rate.

The Court: They would if it were lower.

The Witness: Well, if it were lower, Judge, we would

probably have so many people coming in that we would soon run out of money, so that we would be in bad shape in that regard.

If we fix it at a lower rate people would come in but, as I indicated yesterday, there is a limit as to how much you can loan, and if you are out of step with the rest of the banking industry, you would have loans running out of your ears.

By Mr. Price:

Q. When you get to that top limit you have got to quit?

A. That's right.

[fol. 3236] Q. But on raising the rate, you can't keep anybody in the bank who wants to go away from you, can you?

A. We certainly cannot.

Q. Or impose a rate on any other bank in Philadelphia?

A. We certainly cannot do that.

Q. Now, Mr. Brown, would you tell us something about open-market operations, what it means and what it does to interest rates?

The Court: Open-market operations of what?

The Witness: Of the Federal Reserve Bank.

Mr. Price: Of the Federal Reserve.

The Court: All right.

The Witness: Open-market operations of the Federal Reserve Bank is a vehicle——

By Mr. Price:

Q. First, will you tell us what it is and what it means; what the term means and then how it is used.

A. Open-market transactions of the Federal Reserve Bank have to do with the purchasing and selling of Government securities and this, besides the rediscount function that they have and the influence that the rediscount rate has on interest rates, they also use open-market transactions, and this means merely the buying and selling of Government securities.

Q. In the public market?

[fol. 3237] A. In the public market.

Q. As distinguished from just between Federal Reserve or member banks?

A. That is correct.

So that if the Federal Reserve wishes to increase the amount of money that banks can lend, they would engage in a transaction of buying securities and in this way put cash into the banking system.

If they wanted to reduce the amount of credit available for loans, they would sell securities and they would sell these Government securities in large volume, which would have the effect of taking out of the banking system the moneys that might otherwise be used for lending purposes.

This has proved to be a very effective way of increasing and decreasing the money supply that is available to banks in their lending operations.

Q. Have the banks themselves or has any individual bank any control over the operation?

A. They have no control whatever. It is a very secretive arrangement. You don't know just what they are going to do from day to day and you can rather gather from day to day that if they want to increase the money supply, why, they would buy bonds and put the money into the banks, as against taking it out in the other direction.

[fol. 3238] Q. What does that do to interest rates? Has that an effect on interest rates?

A. That has an effect on interest rates to the extent that as money is tightened interest rates are likely to go up; and as money is loosened or made more available interest rates go down.

So this is also a strong arm that the Federal Reserve Bank has in affecting interest rates.

The combination of the rediscount activity and the open-market transactions has a great bearing on interest rates as a whole.

Q. Is that reference to tight money and loose money that you mentioned——

A. Perhaps I had better say tight money and easy money.

Q. All right, tight and easy.

That can be done artificially by the Federal Reserve by this system, you say?

A. It can be done and it is done regularly.

Q. You mentioned the Treasury bill rate. That is the rate the Government pays for bills.

Is there any other mechanism that the Government uses which has an effect upon interest rates?

A. I would think, Mr. Price, that the main effects are created by the rediscount situation and by the open-mar-
[fol. 3239] ket transactions.

I would not think that the Federal Reserve's attitude about loans or how many you make (and they do exercise some judgment in that way) would necessarily drive the interest rates up or down.

Q. And those are entirely outside of your control no matter what you do or what you try to do?

A. We have no control whatever of that.

Q. You mentioned reserve requirements as 15-½ per cent. Can you make any use of that reserve? Is that a reserve that helps you in the operation of your bank?

A. No. That does not help us at all. As a matter of fact, I often think about that reserve and its classification as such. When one ordinarily thinks of a reserve in an ordinary sense it is something you can use but, of course, we can make no use of this money at all. As a matter of fact, it's just isolated from the bank entirely, so to the extent that you would like to turn to it for a reserve, it's meaningless.

And it is for this reason that banks must have secondary reserves. Secondary reserves are reserves which are carried to meet unforeseen happenings. These would largely be a sudden decrease in deposits, a sudden increase in loans that you had not been expecting.

[fol. 3240] In our bank you might be interested to know that we carry $40 million in short-term securities (a year or less) to cover our secondary position in the event that there would be a sharp fluctuation, and this is really a reserve so that we can turn to it to meet depositors' needs and it might be called our liquidity reserve.

The reserves we have with the Federal, there is no liquidity in that. The liquidity comes from our secondary reserve position.

I might say too that the bank, in having to maintain such a safety valve as the secondary reserve, is restricted as to its earnings on that amount of the portfolio because it is necessarily Government securities, bankers' accept-

ances, and items of that kind which are due in one year or less.

Q. Now I would like to turn to the subject of deposits and the importance of deposits to the bank in the ordinary banking operation and what control you have over depositors; and in that connection I will read you this question and answer in Dr. Goodman's testimony appearing on page 2024:

"Q. What control have you got over any depositor who wants to withdraw his deposits and go somewhere else?
"A. By competitive strength."

Now what have you to say about that?

A. I am afraid the doctor is in the wild blue yonder there [fol. 3241] too because there is nothing that we can do to prevent a depositor from taking his money out of our bank. There is nothing any bank can do to prevent a depositor from taking money out of the bank.

Q. What effect does the continuation of deposits have on your general position and your ability to service customers that you would like to be able to serve?

A. That is, of course, our life blood. The money that a bank makes in its banking side of its bank is entirely related to the amount of deposits that it can hope to have depositors maintain with it; so that the whole life blood of the system is to get every deposit dollar you can into your bank and try to keep it there.

But there is no way of keeping it there if somebody wants to take it out.

Q. What efforts do you make now? What is your general routine in order to get and retain deposits?

If that is an activity of your bank, will you describe it.

A. Well, that is certainly an activity of our bank.

We do everything that one can think of related to sales activities to try to get depositors to come into our bank, and once we have them we try to guard them with our lives. We do everything we can to see that they get every [fol. 3242] conceivable service they should have and we call on them regularly. We try to be as much a part of their life as we possibly can so that they won't think about some banker across the street or down the street.

Q. Now there are several kinds of deposits. Just gen-

erally for the moment, let us consider those of the very large companies who can put in a million dollars and more, and other types of deposits.

Will you refer briefly to the approaches that you have to these various groups of depositors and the kind of money that you try to get into your deposit accounts.

A. Of course, we are more interested in getting demand deposits in the bank than any other kind because they are the kind that we do not pay interest on.

As to the large depositor, the very large depositor who would have a million or more, we step up our activities in our calling and our relationship and our cultivation as to that depositor and are very sure that he is never lacking for our interest.

For depositors in our bank that have $10,000 or more, even sums running down to that relatively small amount, we have every one of those customers called on every year by an officer of our bank to see whether there is anything more we can do for them, whether we can serve them in our [fol. 3243] Trust Department, whether everything is going along just as they would wish it.

So that we do a great deal of cultivation to be sure that somebody else might not be cultivating too.

Q. Do you find that necessary in the business?

A. We find that very necessary. You can never let your large depositors be exposed to your competition.

Q. Now the lower brackets, the lower individual amounts, do they constitute a substantial amount of the depositors in dollars in your bank?

A. They constitute a very substantial part of the depositors in our bank.

Q. How do you cultivate them and retain them?

A. I am not sure that I understand that question, Mr. Price.

Q. Do those smaller depositors just walk in because you have a nice banking building or do you make some effort to bring them in?

A. Well, I suppose the bank building and its appearance has something to do with it. We try to dress up our offices and our banking facilities as much as we can and make them as attractive as possible.

But the way we get most of the depositors come in is

that we are seeking them out because we are constantly checking communities, checking new people coming into the [fol. 3244] area, and checking new officers of corporations to try to attract them into our bank as depositors.

Q. What about these special checking accounts and special services of that sort?

A. Special checking accounts, we do not cultivate those customers in the same way, except through our advertising and through our mail and brochures and sales items we are endeavoring to get those customers to carry on other business with the bank. If they have a special checking account we let them know about our safe deposit services or we offer our consumer credit facilities, feeling that some day those small depositors, a number of them, are going to be large depositors; and if we get them in their infancy they are more likely to stay when they mature.

Q. What is the volume of dollar deposits in that group? Is it substantial or not?

A. The dollar volume in special checking accounts is not a substantial amount actually in relation to the whole bank. The average special checking depositor has about $200 in the bank, a great bulk of them have much less than that; but it would amount to about $12 million or $13 million and this would be from about 65,000 depositors.

Q. Now what have you to say about your lending ability with reference to bringing business into the bank? Is your [fol. 3245] capacity to make loans when requested an influence on maintaining good customer relations?

A. That is a very important consideration. Actually, most commercial accounts that you are able to obtain as customers of your bank cannot really be obtained or attracted without some discussion about the credit facilities which you are willing to make available to that customer.

We are frankly very careful when we call on a customer to be sure that he will warrant credit facilities because we know that that is one of the things that we are going to have to offer if the conversation is to end in our getting an account; so that our ability to lend money is very important in obtaining particularly commercial accounts.

Q. Which comes first, the facilities or the customer?

A. Well, first of all, we have got to have the facilities and if we have got the facilities then we can go around and talk to the customer.

Q. Mr. Brown, there was offered as a part of the Government's case an exhibit, No. 69, which had to do with participations. This had a list of participants in which the Girard had taken part and I am going to ask you about those particular loans.

The Court: Just a moment, Mr. Price.
All right, Mr. Price.

[fol. 3246] By Mr. Price:

Q. Have you a copy in front of you, Mr. Brown?
A. No, I have not, Mr. Price.

The Court: Here is the official copy.
Mr. Price: I have one, sir.
The Witness: Yes. I now have it, Mr. Price.

By Mr. Price:

Q. That first one is a loan of $10 million, in which the Girard had a participation of $2 million. There were three New York banks and Girard Trust.

Who arranged for that participation?

A. The Company asked us to take this $2 million portion of this loan.

The company is a large sugar refinery.

Q. But you didn't initiate that; you weren't the lead bank?

A. No. In fact, there were no lead banks. The company just asked us to take our $2 million portion just as they asked the other banks.

Q. The other banks were $3 million, $3 million, and $2 million respectively?

A. That's correct.

Q. Three New York banks and yourself?

A. That is correct.

Q. The next loan on that exhibit is one of $60 million of [fol. 3247] which the Girard had——

A. $1,500,000.

Q. —$1,500,000.

How did you get that participation?

A. This company is located out in Detroit, although it does have a number of offices here in the 10-county area, and

asked us to participate in this loan having to do with a general building program that they were undertaking.

Q. Excuse me. I want to go back to that first loan for a moment.

The three banks in New York were not named. One was the First National City with $3 million; the second was Chase with $3 million, and the next was Irving Trust Company with $2 million; is that correct?

A. That is correct.

Q. Now, in this $60 million loan, the second one, of which Girard had $1,500,000, what was the bank that had the largest amount, the largest share of that participation?

A. The bank that had the largest share was the National Bank of Detroit, which is the headquarters of this company—$4,500,000.

[fol. 3248] Q. And then two banks in Chicago had 3½ million each?

A. Yes, that was the Continental Illinois and the Northern Trust Company in Chicago each had 3½ million.

Q. The next one was the Bank of America?

A. Yes, that is the Bank of America. They had $3 million.

Q. And the Bankers Trust in New York?

A. They had $3 million.

Q. Chase Manhattan?

A. Also $3 million.

Q. Detroit?

A. Detroit Bank and Trust Company, also $3 million.

Q. Security Trust in Los Angeles?

A. $3 million.

Q. And then various smaller amounts down to $1 million for the First National Bank of San Francisco?

A. That is the First Western Bank and Trust Company in San Francisco, $1 million.

Q. And those participations were arranged by whom?

A. The company arranged the participation.

Q. On the next page, a loan of $2,500,000, the Philadelphia National Bank had $681,750?

A. Yes.

[fol. 3249] Q. And other banks including the Girard participated?

A. Yes, we had a $454,500 participation.

Q. How were the participations in that loan decided upon?

A. This was decided upon by a joint venture of the Philadelphia banks. The hotel company here was going to build this building. It looked as though the financing was going to New York, so we all joined together—frankly, which we seldom do—and participated this loan between us more or less on our capital and surplus position.

Q. Was there any allocation by any one bank to the other banks of a share?

A. No, this was just a joint agreement that we made to help finance part of the Penn Center development, and this was just one of the transactions.

Q. The next loan was one of $6 million, of which the Philadelphia National Bank had $1,500,000, as had the Girard. How were the participations of that loan decided upon?

A. In this case the insurance company asked us to take the lead in perfecting the arrangements, and they asked us to speak to the other banks in Philadelphia, and [fol. 3250] we therefore undertook this for them and arranged these allocations to their other banks in Philadelphia to the satisfaction of the insurance company.

Q. But the participations were fixed by whom?

A. Well, the participations were suggested by us but fixed by the insurance company.

Q. They were the ones that told you what banks were to participate?

A. Oh, yes. We just went to their banks to save them the trouble.

Q. You didn't make the participation or the allocation?

A. Oh, no, we did not.

Q. The next one is a loan of $3,300,000. There were two participants, the Girard and the Fidelity. How was that divided?

A. Well, this was divided in half. Both of these banks, the Fidelity and the Girard, shared the credits needed by this company on about a 50-50 basis, so when they wanted to set up an agreement to finance a construction program, the company asked us to take $1,650,000 and asked the Fidelity to take the balance of it, $1,650,000. This is a cement company up in Pennsylvania.

Q. The allocation was by the company, was it?

[fol. 3251] A. Oh, the company made the allocation. We had nothing to do with that.

Q. The next one is a loan of $1,100,000, of which Girard had a share of $440,000, Philadelphia National Bank the same amount, and the Broad Street Trust $220,000. How were those allocations determined upon?

A. This corporation was acquired by one of our very good customers. The corporation itself is in Covington, Kentucky. They make bathroom medicine cabinet fixtures and things of that kind, and the parent company asked us if we would take a part of this credit they were arranging in connection with their financing of the company, and they asked us if we would take a share, which we did, of $440,000 participation. The Philadelphia National Bank is also an important bank in this picture, and they took a similar amount.

Q. Who determined the share of that loan?

A. This was determined by the parent company.

Q. The next is a loan of $750,000 which Girard and the Franklin National Bank of Franklin Square, New York, shared.

A. Yes. Long Island.

Q. Who determined the allocation of the loan there?

[fol. 3252] A. The company determined it. As a matter of fact, they surprised us with it. We didn't even know they had made the arrangement, so that the company made the arrangement with the Franklin National Bank, and in connection with this particular transaction we took half of it and Franklin National Bank took the other half.

Q. But you were picked by the company, the borrower, not by the bank?

A. We were picked by the company. We have never had any connection with the bank whatever.

Q. The next is a loan of $400,000, of which Girard had $150,000 and two other banks had $150,000 and $100,000 respectively. How were the participations determined for that loan?

A. Well, this is a rather different situation. The only reason this is a participation at all is that the three companies involved, in loaning money to the company, wanted to be on a pari passu basis so that no one would get out

without notice to the other. This participation was merely to guard against one bank being paid out and perhaps not coming back in. So this company, under the agreement, had to give six months notice if any of the banks were going to retire from the situation, and that is the only reason there [fol. 3253] was a participation at all.

Q. The next one is a loan of $500,000, of which the Lancaster County National Bank and Trust Company had $200,000 and Girard $300,000. How were the participations arranged there?

A. This particular customer is not a customer of ours; it is a customer of the Lancaster County National Bank. They carry balances with us, and they asked us to assist this customer, which is in business up in Lancaster, by taking a part of this $500,000 loan, so we did it for our correspondent bank.

Q. The company in that case did not make any allocation of the amounts?

A. No, they did not. The bank did that in making that allocation.

Q. The Lancaster Bank was your correspondent?

A. We are the correspondent bank of the Lancaster County National Bank.

Q. That amount of $500,000 was more than they could handle?

A. Yes, that is correct.

Q. The next loan is one of $10 million, of which the First National Bank of Boston had 25 per cent, the First Pennsylvania Banking and Trust of Philadelphia had 25 per [fol. 3254] cent, Girard had 25 per cent, and Philadelphia National had 25 per cent. How was that allocation determined?

A. That was determined by the company. This is a large department and specialty shop operation. They have a number of branches here in Philadelphia and also in the ten-county area and also around the country, so they wanted somebody to manage it. They selected the First National Bank of Boston and just told us they would like to allocate to us 25 per cent of this loan, so the company asked us to take the participation.

Q. And their head office is where?

A. Their head office is in New York City.

Q. But they used the First National as the lead bank?

A. They used the First National as the lead bank, I think feeling that they perhaps had a little more experience with this type of loan.

Q. But the First National Bank of Boston was not the one that selected you to participate?

A. No. We have a very satisfactory account with this company. They selected us.

Q. The next one is a loan of $10 million, of which the [fol. 3255] First Pennsylvania Banking and Trust of Philadelphia had 3½ million, Chase in New York 2½, Girard 2½, and Fidelity $1,500,000. How was the participation arranged there?

A. The company asked us to take this participation. They had used their short-term credit for an expansion program, and they needed to fund that debt, and they felt they needed $10 million, so they asked us, as one of their banks, if we would take a share and allocated to us 2½ million.

Q. This wasn't a request from First Pennsylvania to you?

A. Oh, no. We had no conversations with the First Pennsylvania Company about it.

Q. May I go back for a moment to the first one on that list, the $10 million credit, of which the First National of Boston was the lead bank. Their head office, the office of the company, was in New York City, but do you know where the effective control of the company is?

A. The effective control of the company is here in Philadelphia.

Q. The next one is $4 million, of which the Manufac- [fol. 3256] turers Trust in New York had $1,550,000, the First National of Boston $750,000, Girard $500,000, New York Trust Company $500,000, Union Trust of Maryland $500,000, and the Harvard Trust Company of Cambridge $200,000. How was that participation arranged?

A. We had had previous participations with this company, and this was one of those that followed later. In this case the company asked us to take a share of the credit, which was $500,000.

Q. So that was not the result of any bank's activity?

A. No. The Manufacturers Trust in New York were the lead bank, but they did not allocate the credit to us.

Q. The next one is a loan of $20,515,000, of which I see the First Camden National Bank of New Jersey had $250,000, the Fidelity-Philadelphia 3 million 5, Chase Manhattan in New York 3 million 5, Manufacturers Trust in New York 3 million 5, and the Girard 2 million 5, all others a smaller participation. How was that participation arranged?

A. This company, which is up at Pennsburg, is in the business of leasing and selling new and used trucks. They had been borrowing from individual banks and also from [fol. 3257] finance companies, and they decided to consolidate their borrowing arrangements under one agreement, so that in this case—we had loaned them many times before—they asked us if we would take 2½ million dollars in the credit, and this is the amount that the company arranged with us to invest in this particular loan.

Q. But no other bank had any share in selecting you?

A. No. All the conversations were with the borrower.

Q. Of the larger participations I note that the Berks County Trust Company has a million, the American——

A. That is the American Fletcher Bank out in Indianapolis.

Q. They have a million; and the Detroit Bank and Trust Company a million.

A. That is right.

Q. The Indiana National Bank of Indianapolis, a million, other shares somewhat smaller?

A. That is correct. They had to do some real scratching to get that money together.

Q. The next one, at the top of the next page, a million dollars, of which the Bank of New York had $500,000 and Girard had $500,000, how was that participated in?

A. We have always shared this business with the Bank [fol. 3258] of New York on a 50-50 basis, and the company—as a matter of fact, part of its operation was formerly here—arranged this with us. The Bank of New York had no connection with it.

Q. The next one is $700,000.

A. That is a subsidiary of the underwear company that is mentioned up above there, and they were acquiring this

property down in North Carolina, this business, and as the company had heretofore, they asked us if we would share with the Bank of New York in this $350,000 of the $700,000 loan. Then there was some additional loans which were mentioned here, and this was also arranged by the company with us.

Q. In the same manner?

A. In the same manner.

Q. And the last one on this list is a loan of $2 million, of which Tradesmens had $500,000, Girard had $500,000, Philadelphia National $500,000, and Central-Penn $500,000. How was this participation arranged?

A. This is a loan to an old and dignified hotel company [fol. 3259] here in town. They were rehabilitating the property, and we were merely asked by the company and those associated with it to take a share, and we had no discussions with the other banks as to what share we would take.

Q. Have you any information as to why the company picked these other banks to share in the various credits that you have here or is that something on which you didn't come in?

A. Well, I know generally why they picked them, because in each case this happens to be the bank where they have had their banking relationships other than with us. You can be sure that there is nobody on this list that has participated or that the company arranged a loan with them, that that company hasn't got a deposit account with the lender or the participant noted here.

Q. So that there are existing connections of some kind, deposits or otherwise?

A. That is quite right. If they were not existing in the case of that trucking company, those arrangements were made for the deposits and the loans simultaneously.

The Court: We will take a 10-minute recess at this time.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

[fol. 3260] By Mr. Price:

Q. Mr. Brown, will you turn now to Exhibit G-67, participations which were offered by the Government in connection with the Philadelphia National Bank.

A. Yes, I have that.

Q. I call your attention to the first one, which is a loan of $119 million. Originally it was $162,380,000.

Did you find it?

A. Yes, I have it.

Q. $162 million, and I note that the Girard had a $2 million participation.

A. That is correct.

Q. And the Philadelphia National Bank had $4 million participation. How did the Girard get into that picture?

A. What happened here is that each of these banks that were listed were dealing with the manufacturing company and the credit company on an individual basis. In other words, the companies were placing the participations by private arrangement with each one of their banks, and I am sorry to say that this particular company has gotten into some very serious difficulties as far as losses are con-
[fol. 3261] cerned, and in order to insure continuous credit facilities, and in order that one bank may not be preferred over another, we entered into the participation so that the whole situation might be kept afloat under a proper lending arrangement where everybody stayed with the ship.

Q. Was there any one bank that selected the other participants?

A. Oh, no, we just joined. All of us who were in trouble joined together.

Q. The two banks that had the two largest participations, one was the First National Bank of Chicago, with $15 million, and the other the First National Bank of New York with $15 million.

A. That is right.

Q. The next was $14 million?

A. That is right.

Q. Then two $10 million?

A. That is right.

Q. Of which the $14 million was the Morgan Guaranty of New York, the two tens were the Bank of America and Continential Illinois National Bank, and then five, and so on down to a small participation at the end of $100,000 to the Citizens National Bank?

[fol. 3262] A. Yes, that is correct.

Q. All of those banks had something to do with that company and they all shared in proportion to their size?

A. They all had individual relationships, and they only joined together, as I have said, to make a credit arrangement which would keep everybody in the same position.

Q. And keep the company going?

A. And keep the company going.

Q. The next one on that list——

A. I don't believe we have an interest in that next one, Mr. Price.

Q. I was about to say that the next one in which the Girard participated is not the next one but is a loan of $1,025,000. It is the third one, the company from Kentucky.

The Court: Isn't it the same one that you talked about before?

By Mr. Price:

Q. That is the same one that appeared on your list, is it not?

A. That is right. It is the same one that appeared on [fol. 3263] our list. It is the same company, and the same statements I made regarding it are true. There are more people in this one. They were acquiring a company up in Reading, and they used the Covington, Kentucky, company to make this additional borrowing, so this is a borrowing over and above the borrowing that we discussed under the Girard's arrangements.

Q. It is the same company?

A. It is the same company, and the company which is the parent to this company, as they were acquiring this company in Reading, just as one of their principal banks, assigned us the participation and the amount they wanted us to participate in. In this case the First Pennsylvania Company has been added. That First Pennsylvania Company happened to be the bank for the company they were acquiring up in Reading.

Q. Who was it that selected Girard as a participant?

A. The parent company to the Covington, Kentucky, company mentioned here.

Q. No bank?

A. No bank had anything to do with it.

Q. Now, the next one in which the Girard participates on this page is the last loan on the page, a loan of $16 million, of which the Bankers Trust Company in New York [fol. 3264] had $3 million, the Chase Manhattan of New York $3 million, the First National City Bank of New York $3 million, the Continental Illinois Bank and Trust Company of Chicago $2 million, Wells Fargo $2 million, then the Girard's participation was $750,000.

A. That is correct.

Q. How did the Girard get into that picture?

A. What happened here is that an airplane company, a manufacturer out on the west coast, a very good customer of ours, in order to try to sell the airplane to this company, asked us if we would be willing to extend this company a $750,000 loan to enable the sale to be completed by our friends on the Pacific Coast, so that in this case the airline didn't ask us to take the participation, but rather the customer who was selling a plane to this company, or planes, asked us to take this participation.

Q. None of these other banks had anything to do with your participation?

A. They had nothing whatever to do with it.

Q. On the next page is a loan of $148 million, of which there are three participants of $15 million, the Guaranty Trust of New York, First National Bank of New York, the Chase Manhattan of New York; the Bankers Trust, [fol. 3265] I presume also New York, $14,500,000, and Hanover Bank, New York, $10 million.

A. That is correct.

Q. And the Girard's participation was $1,200,000. How did you get into that loan?

A. The airway company here asked us to take this participation. They were a customer of ours and had a deposit with us in substantial proportions and just assigned to us this participation. It was not arranged by any of the banks with us. We had no conversations with them about it.

Q. I notice that this loan was participated among nearly 40 banks all over the country—Houston, Texas, Chicago, New York, and so on—Seattle.

A. That is correct.

Q. All in varying amounts.

A. They needed a lot of money, $148 million.

Q. But the individual participations are relatively small after you get outside of New York City.

A. That is correct. The Mellon had $6 million. They are about the largest outside of New York.

Q. Mellon, $6 million?

A. Yes.

Q. New York Trust Company had $8 million?

[fol. 3266] A. That is right. Manufacturers had 3 and Morgan had 3.

Q. Manufacturers likewise of New York?

A. Manufacturers Trust Company is in New York, yes.

Q. And J. P. Morgan, New York, $3 million?

A. Yes. That is now the Morgan Guaranty.

Q. And the Bank of New York, $1 million.

A. That is correct. That Brown Brothers Harriman would also be in New York.

Q. There is something over $80 million of that total $148 million loan that was taken by banks in New York?

A. That is right.

Q. And the rest was participated out?

A. The company just arranged with those other banks to take a share.

Q. I don't find any more participations of the Girard on the rest of that exhibit until we get down to the last page, a loan of $20 million, which is the next to the last loan on the last page. Do you find that?

A. Yes, I do. This is a Philadelphia company in the alcohol business.

Q. And how were you selected?

A. The company has always in its various credits from [fol. 3267] time to time assigned us a share, we being one of their depositories. We had no relations with any banks.

Q. But that Philadelphia company selected the Bankers Trust Company of New York for a $4 million participation?

A. That is correct.

Q. Chase Manhattan of New York for $4 million?

A. That is correct.

Q. And the First National Bank of Chicago, $3,400,000?

A. That is correct.

Q. Philadelphia National 2 million 5 and Girard 1 million 6?

A. That is correct.

Q. The Philadelphia National Bank 2 million 8, I am sorry.

A. Yes, it is difficult to see that figure. I think it is either 2 million 5 or 8.

The Court: It is 2 million 8 on the original.

By Mr. Price:

Q. Now, the last loan on that page, a loan of $5 million, the Girard had a participation of $1,500,000. How was that participation arranged?

A. That is a revolving credit arrangement made by this [fol. 3268] steel company. They dealt with us directly and assigned us our share of $1,500,000. The banks had nothing to do with it.

Q. Do the same comments which you made in respect of the loans on the earlier exhibit, G-69, where the Girard loans were listed, with reference to the selection of the participants, apply as well to these loans listed on G-67?

A. Exactly the same manner.

By the Court:

Q. Can I summarize your testimony in this regard as saying that the banks got together in the Penn Center development?

A. Yes.

Q. And the banks again got together in the case of this manufacturer?

A. Who was in trouble.

Q. Other than that, that your business came directly by company assignment rather than through any bank?

A. Entirely correct. There was no bank participating.

By Mr. Price:

Q. With one exception, if I recall correctly, where your correspondent bank, a small bank, couldn't handle it and [fol. 3269] asked you——

By the Court:

Q. That was the Lancaster Bank.

A. That was the Lancaster County National.

Q. So there are three out of the sum total that any bank had originated?

A. That is correct.

By Mr. Price:

Q. Now, with reference to that participation that you took as a result of the request of your correspondent bank in Lancaster, will you turn to page 103 of the application, Exhibit G-57.

A. I have that.

[fol. 3270] As a preliminary to the question I am going to ask you if you will be good enough to read three paragraphs on that page, first under the three figures, beginning with, "When the legal limit ...."

A. "When the legal limit of a correspondent is too small to meet the needs of its customers, the Charter Bank frequently makes the entire loan and issues a participation to the correspondent. Additionally, the loanable funds of correspondents not needed to meet the credit needs of their local communities are often invested in Charter Bank loans. Such investments are evidenced by participation certificates issued by the Charter Bank."

Q. The next paragraph.

A. This has to do with the merging bank, the Girard.

"There were no instances during 1959 in which, as to commercial loans, participations in the true sense were sold to any other bank or banks. The qualification is made because, although the Merging Bank has acted as agent bank in certain transactions, the other participants were also depositories of the borrower and each bank's share of the credit was pre-arranged."

Q. Now the last paragraph on that page.

A. The one under——

Q. The one under the asterisks, yes.

[fol. 3271] A. "The above information on participations does not reflect the frequent instances where corporations make direct arrangements with several banks when their credit requirements are in excess of the lending limit of either of the participating banks."

Q. Now turning your attention first to the situation in which the Lancaster Bank was an illustration, tell us about that type of participation, how it originates and how that was handled.

A. Well, in that type of participation we find ourselves dealing most of the time with what might be called country banks or smaller banks.

They, being limited as we are to lending 10 per cent of their capital and surplus, find when a customer of the size of the one in Lancaster which was mentioned applies to them for credit, they turn to their correspondent banks for the additional credit.

Now with these correspondent banks they carry very substantial balances. They often carry their reserves with the correspondent bank and, therefore, the correspondent bank is willing to take a share in that loan even though the correspondent bank itself (in this case being our bank) has no relationship with the borrower at all.

This is the kind of transaction that I heard a number [fol. 3272] of those independent bankers discussing, where they would get a loan that would be too big for them and they would participate it.

Many of these loans are really quite small. We quite frequently participate in a loan to the amount of perhaps $15,000, $20,000, $25,000. They are normally not very large loans at all, but they are over the lending ability of the country bank, so that there are numerous participations which do arise in that manner and for that reason.

Q. When you speak of lending ability, do you mean necessarily lending limit, the legal limit?

A. Well, not necessarily the lending limit. The correspondent bank also has its problem as to the amount of credit that it really lends in relation to its resources and there are many cases where the correspondent bank doesn't take up to its legal lending limit and passes on to its city correspondent the amount that is over and above what they think they can comfortably lend to their customer.

Q. Now the city correspondent with whom it participates a loan of that sort is, as you described a moment ago, its regular correspondent bank?

A. Its regular correspondent bank, with which it really has a very warm relationship, and keeps balances. These [fol. 3273] country banks keep these balances with city banks just so that they will take a loan when they are asked to take one.

Q. Now is a large city bank, a member of the Federal Reserve, as a correspondent for a small country bank, a necessity for the smaller bank; or is that merely a convenience?

A. Oh, it's really a necessity. We help them with their portfolios, that is, their investments. We help them with some of the credits that they extend. We handle the clearings of the bank, the collections for the bank, and give them all sorts of services; help them with their Trust Department, if they have one.

Q. You speak of clearings. Do you mean clearing checks?

A. Clearing checks, yes.

Q. What about reserves, the maintenance of reserves——

A. Well——

Q. —if they are not a member?

A. If they are not a member of the Federal Reserve, why, they keep their reserves with us and it is particularly that type of bank that would have their reserves with us that would feel more inclined to call on us to take care of the overage situation.

Q. In what form are those reserves kept? Are they a deposit with you?

A. They are a deposit in cash with us, yes.

[fol. 3274] Q. So that they have a deposit then which would support loans in the way that you have described in other situations?

A. That's right. They have it with us and therefore we look at that when we wonder how much of a favor we should be doing for the correspondent bank.

Q. Then is there another type of participation of loans that you make with your smaller country correspondents?

A. Yes. We frequently make transactions of this kind of participating some of our loans to the country banks. Frequently they are not loaned up as much as the city

bank would be loaned. They have been under terrific pressure to meet the 3 per cent interest on savings. This has been very hard for the small country banks to pay.

They, therefore, frequently ask us if we haven't some investment which is producing a high rate of return that we could sell to them or participate with them so that they can improve their income situation; and we do this with numerous small banks.

We also do it with banks that are located in seashore locations. They have a great influx of money during the summertime and they don't want to make any permanent investments, so they ask us if we haven't some investments of our own in loans that we might not participate to them to fill up their loan portfolio for the period that they are [fol. 3275] going to have these excess funds.

So that we do a lot of this for any good correspondent bank.

Q. Does that involve any knowledge on the part of the borrower that you are giving to the smaller bank a part of that loan?

A. We usually don't say anything to him about it.

Q. That is merely a private arrangement between you and the smaller bank?

A. Yes. We keep the participation of the loan, we manage the loan; and the borrower is not affected in any way. As far as he knows, we have the whole loan.

Q. Then like in this case in the summertime, when the seashore banks run out of cash at the end of September or perhaps after Labor Day——

A. Then those participations come back quite promptly.

Q. Now is there any other type of participation with the smaller banks that you engage in?

A. Well, I think other than we do sell them sometimes interests in our higher-rate consumer loans in order to bolster their income; but I think other than the normal loans that we have—brokers' loans, life insurance loans, regular commercial loans, and consumer credit loans—I think they are the main ones that we participate, Mr. Price.

[fol. 3276] Q. Do you participate in any of those loans with a smaller bank which is not one of your regular correspondents?

A. Oh, no, we wouldn't do that. Well, we might if we thought he was going to open up in a very short time. We would do it, but that would only be a test situation until we found out whether we were going to be his bank or not.

Q. That normally is a part of your regular relationship with your smaller correspondents?

A. Yes, it is.

Q. Now the other type of participation that has been suggested here is among banks of equal standing, such as Girard and Philadelphia National, Pennsylvania Company, and so on.

What can you say about participations of that nature?

A. Participations of that nature are really not arranged because, as a practical matter, you just cannot participate one of your good customer's loans to a bank that has no relationship with that customer. That bank's first question is, "Well, where is the deposit?"

Of course, we are not going to give them any deposit, the company is not going to give them one; so they don't qualify on that basis.

If they want us to increase our balances, if we have an [fol. 3277] account with that bank, they would want a greatly increased balance; so, as a practical matter, banks like our own have no real facilities of participating loans to other banks because we only keep enough money in other banks to support the everyday activities that we have.

We don't have any reserves in other banks or any excess cash. We keep it drawn down to the last dollar, and when a bank has a bank account from us, they really work for it; so that when we would call them and ask them if they would participate in a loan, this would be the last thing in the world they would think of doing.

Q. Then this type of participation which was described by the independent bankers and which you have just gone into more fully here doesn't apply?

A. Oh, it does not apply at all.

I may say that I have had just one experience in trying to do this. One of our large saving fund societies here in town asked me if I could arrange for their banks to build up a pool of $36 million——

Q. When you say "their banks," their banks where?

A. Their banks, in Philadelphia, and they had one in New York.

Q. Yes?

A. —if I could build up a pool of $36 million to take care of their mortgage requirements. Their mortgages [fol. 3278] were running off about $36 million a year.

After I got to $27,500,000, using Morgan Guaranty of New York to the extent of $2½ million, I went to our friends at the Chase Manhattan Bank in New York and told them by predicament and I induced them to take a $5 million participation in that loan. I gave them no assurances that I was going to increase my million dollar bank account that I have with them——

Q. You had a deposit of a million dollars?

A. We had a million-dollar deposit with the Chase. I gave them no assurance that they could get an account from the saving fund. However, I think they thought they might either get us to increase our balance substantially or that the saving fund would open with them.

After a trial period of about a year they called me and politely returned the participation and said that they found that this was a very barren relationship; so they sent it back, which meant that the saving fund has now a reduced loan of $27,500,000 for this purpose.

As a matter of fact, it is too small and we have not yet solved the problem of how we are going to get it back to $32,500,000, where it was before the Chase called off their participation, because we have just run out of banks, that is, the lending ability of the banks they are doing [fol. 3279] business with.

Q. Doing business with where?

A. In Philadelphia.

Q. In Philadelphia?

A. They have all their accounts in Philadelphia, except one with Morgan Guaranty in New York.

Q. So that the Philadelphia capacity was exhausted?

A. All I could do in Philadelphia, as I say, was $25 million with their banks, the saving fund's banks.

Q. And with an extra $5 million in New York, which you couldn't even hold?

A. I couldn't hold that. That was sent back to me.

Q. Now has any other larger bank, either in Philadelphia or elsewhere, asked you to participate in loans or have your participations all come from the companies themselves?

A. No, no one ever asks us to participate in a loan because just as a practical matter they wouldn't think of doing so. They are sophisticated enough to know that banks just don't operate in that way.

Q. Now as far as prospective borrowers that come in to you for loans, have you ever had any borrower ever ask you for a loan in an amount larger than you were authorized to make, above your lending limit?

A. Yes, we have.

[fol. 3280] Q. What happened?

A. Well, in that case we have to ask them about their other banks, and the best——

We always, of course, try to manage the loan if we can, but the only avenue open to us is to go to the banks of that company and see whether we can put together the loan that they require. You couldn't think of turning to, say, The First Pennsylvania Company if it didn't have an account, and say, "I'd like to send you over a piece of the loan."

This would be just completely impractical.

Q. Now you sounded there as if you were speaking of a case in which the company asked you to manage a loan or to arrange a loan with other banks.

A. That's what I was speaking of.

Q. Now did anybody come in, not asking you to arrange one, but say they wanted to borrow $15 million—ask you to lend them $15 million?

A. No. The people who are borrowing that kind of money are sophisticated enough to know not to come in to ask a bank with a $6 million lending limit for a $15 million loan.

Q. So you just don't have that kind of request?

A. No, no one ever brings up that question because when you are borrowing that kind of money you know what the availability of credit is and you wouldn't think [fol. 3281] of going to some place where you couldn't supply it.

Q. I think that covers participation and I would like

you to turn now to the subject of branches and how branches operate.

If I may call it so, I will use a text for this part of the examination. This is a statement by Dr. Goodman appearing on pages 1831 and 1832 of his testimony, where he said:

> ". . . but we typically find in our studies that the branch-banking system, with the relative limited authority of a branch manager in an area, is not as free, is not as able to adjust, or is not as interested in the business of a particular local area, a particular geographic area, that the unit bank was."

I believe some of the independent bankers expressed a somewhat similar opinion. What can you say about that?

A. I frankly was amazed to hear Dr. Goodman say that, and also the independent bankers, because they must never have visited Philadelphia, because in branches of Philadelphia banks there is the strongest competition for business.

After all, these branches cost a quarter of a million dollars just to build the buildings and we don't build those buildings to ignore the people in the community. We are [fol. 3282] out there fighting for every piece of business that we can get and we put people in the branches who are real citizens in the community, people who, frankly, we try to get somebody who would be the equivalent of a president in a small bank.

As to the operation of that branch, this is not as easily done as said, but we try to clothe that branch manager with all the authority we can give him, certainly all the authority he has the ability to administer; and to the extent that he cannot handle a piece of business he is so alerted to the availability of lending officers in the bank or directly assigned to him that we just don't have any problems of turning down loans because somebody may not be able to loan more than five, ten, fifteen, $20,000, or $100,000. This just doesn't exist in our bank.

Q. Now would you first turn to the exhibit, I think the number is 33, the Girard's annual report for 1960.

I call your attention to the list of names on page 2 of

the green-blue portions of the page, which has the heading "Advisory Boards," and ask you what that means.

A. Is this on page——

Q. 2.

A. Oh, page 2? In the front of the report?

Oh, yes, Advisory Boards.

Advisory Boards usually have their earliest constitu- [fol. 3283] tion in place of being the directors of the former bank in the community where we have acquired a bank by merger. We are extremely anxious to maintain the local interests of the former directors.

Occasionally those directors go on our main Board, but to the extent that they do not we designate usually the president or the former chief executive officer of the bank with which we have merged as Chairman of an advisory board. This, as I say, in its initial stages, consists of the former directors of the bank.

Then we try, as we go along, to add businessmen in the community to this advisory board and we give these advisory board members a great deal of authority. They meet at regular intervals, some of them as many times as once a week. They assist the branch managers, who are usually the presidents or the vice presidents of the former bank with which we have merged, in counseling him on loans.

They, of course, are familiar for the most part with local conditions and we permit them to take a substantial hand in the lending ability of the banks.

We also get their interest in developing new business for the bank in the community because, as I say, most of them are community men and, all in all, we have found this to be an extremely valuable service in all the areas where [fol. 3284] we have had mergers.

Q. Do they take any active part themselves in securing new business for the bank?

A. Yes, sir. Yes, they do.

Q. How are they helpful in their past experience in that field?

A. Well, you see, the reason they are particularly helpful is that in most cases they are community businessmen, they are very familiar with what goes on in the community. They have had the experience of being, in

most cases, the directors of the bank before, and here they are carrying on the same kind of a job they did in the community before, except that their sights are enlarged because we have given the people in the bank greater lending authority than they had before, and we give a great deal of weight to the recommendations of these advisory boards as to large mortgages and large loans that have their origin in these general communities.

Q. Now these four that are listed here, these four Advisory Boards, represent what banks?

A. Well, the first one, the Delaware County Division, that's the Upper Darby National Bank. The Ambler Division is the Ambler National Bank former area. The Narberth Division—we now call that the Main Line Division—is the Narberth Bank former area; and the North [fol. 3285] Philadelphia Trust Company is the former area served by the North Philadelphia Trust.

Q. And those are the banks which you described yesterday as having been merged with the Girard?

A. All except the Germantown bank, which is in Philadelphia; and in that case the Advisory Board meets once a year, but because they are not local businessmen for the most part they do not take the active part that these particular board members do that are listed here.

Q. These are all members in the local communities that are interested in the activities of the community as well as the bank?

A. That is correct.

Q. And are familiar with it?

A. That is correct.

Q. Now you mentioned the subject of the lending authority of the new officers of the branches, and I show you a three-page exhibit marked D-36.

(Three-page document entitled "Loan Authorities of Banks Merged with Girard Trust Corn Exchange Bank," was marked Exhibit D-36 for identification.)

By Mr. Price:

Q. I ask you, Mr. Brown, what that represents.

A. These are the loan authorities of the banks merged with the Girard Trust Corn Exchange Bank.

[fol. 3286] Perhaps that title would read better if it said, "Loan Authorities of Officers Located in Banks Merged with Girard Trust Corn Exchange Bank."

Q. Now on the first page, at the top of the page, beginning with the Upper Darby National Bank, this lists the names of the officers and under the heading of "Upper Darby National;" Unsecured and Secured?

A. Yes.

Q. And under the heading "Girard Trust Corn Exchange," Unsecured and Secured?

A. Yes.

Q. What do those figures mean?

A. This means that the first man, for instance, Dr. Helfferich, had a lending authority of $10,000 on an unsecured basis, and $100,000 on a secured basis. That means secured by collateral or other suitable securities.

As it moved over to the Girard Trust, it shows now that under our direction of that bank, in that same area where Dr. Helfferich had been operating before, he now has $100,000 unsecured and $200,000 secured.

Q. And correspondingly, the other sets of figures indicate the increase in the lending authority of the officers by name, whether they were there before or whether they are new officers?

[fol. 3287] A. Yes. That is correct. All the people listed under Upper Darby were all there before——

Q. And two are apparently no longer there?

A. Well, I perhaps should have amended that by saying that Mr. Burns is in an entirely different field of work than lending now, he is downtown; and Mr. Simpson is in an area where no lending authority is involved; and, as a matter of fact, it is best that it not be so.

Q. But they are both still with the bank?

A. Yes, they are. They are all with the bank, but the two that have no lending authority, one is an estate planning officer and the other has charge of our "Charge-Rite" Department.

Q. The next list, the name of branch and manager, in Havertown or in Lawrence Park, Mr. Perna——

A. Mr. Perna has left the employ of the bank. That is why there was no lending authority noted for him.

Q. And Mr. Holmes?

A. Mr. Holmes is no longer in Lawrence Park—well, as a matter of fact, Mr. Holmes is now in Lawrence Park. He was formerly in one of our other branches in the Upper Darby section, out at——

Q. I notice these blank spaces in the beginning for Mr. Holmes, and then later for Mr. Perna, and for Mr. Simpson.

[fol. 3288] They represent changes of position rather than lack of authority or withdrawal of authority?

A. Entirely due to change in position or having left the bank entirely.

Q. How do you find that that affects the efficiency of the operation of the branch as it is now, as compared with the operation of the bank before the merger?

A. Well, we find that the men involved take a much more important part in the lending activities than they had in the former bank, and it is also our policy in our bank to extend to these men as much lending authority as they are capable of handling; so that these authorities, while they have moved up from some very low sums in the former bank, have moved up relatively quite a lot.

It is our desire and through our training programs of these men in credit we expect to move their authorities up much higher.

Q. Now what does that do also to the effectiveness of the men themselves in their local day-to-day operation?

A. Well, this, of course, helps them a great deal because it means that they do not have to turn to others to make a decision as to whether they can or cannot ma. a loan; and naturally this gives a person more stature and they are better able to operate.

[fol. 3289] I might say that these loan limit which are mentioned here would take care of the usual loan that would come across their desk.

Q. How does that affect the service to the customer?

A. Oh, this, of course, improves the service to the customer a great deal. He gets more immediate attention and let's say there is no waiting.

Q. Now, who was the president of the Upper Darby National Bank?

A. The president of the Upper Darby National Bank was Mr. Joseph Wilkinson. He is Chairman of the Ad-

visory Board there now and he is also on our Board of Directors in the main bank.

Q. Who was the next executive officer under him?

A. That was Mr. Helfferich.

Q. And he is the head now?

A. Yes. He is a senior vice president of our bank now.

Q. And his position presently with the Upper Darby is what?

A. Well, his position with the Girard is senior vice president now.

Q. But has he special supervision over the Upper Darby branch?

A. Well, he and Mr. Smock, who is the vice president, do.

Q. What can you say about the merger on the ability of those two gentlemen to serve the branch and serve the [fol. 3290] bank in addition to their purely administrative duties?

A. Well, of course, their stature through their improvement in their lending authority is certainly greatly enhanced and they function in that bank without very much reference to the main office.

Q. I am not making myself clear.

The Court: The clock has reached the hour of twelve and we must adjourn until two o'clock.

(Recessed at 12:00 o'clock noon for luncheon.)

[fol. 3291] [File endorsement omitted]

AFTERNOON SESSION

Mr. Reycraft: If Your Honor please, before we resume, could I bring up the question about additional witnesses? We received a list on Monday of eight additional witnesses for the defendants, which is captioned "Defendants' Fourth List of Witnesses," and I don't know what the total is at this point. I don't want to keep Mr. Littleton and Mr. Price from putting in anything they think they need, but, on the other hand, I think we ought to know fairly soon what witnesses we are going to have and what witnesses we are not going to have.

Mr. Littleton: Well, if Your Honor please, at least two of them on the fourth list of witnesses we are suggesting because we think the addition of them will result in the elimination of a number of others, and we are hoping today or tomorrow—as I think I suggested when we were meeting in Your Honor's chambers yesterday or the day before—to get this list down to the absolute minimum. In other words, at the moment we do not intend to call all those who have been listed on lists heretofore given to the Court and to Mr. Reycraft.

[fol. 3292] The Court: Well, I ask you to firm it up certainly by Friday of this week.

Mr. Littleton: That is what we are endeavoring to do right now. As I said to Your Honor the other day in chambers, our purpose at the moment is exclusion, not to repeat and not to meet anything which hasn't been brought out by the plaintiffs.

The Court: I understand that. Go ahead.

GEORGE H. BROWN, JR., resumed.

Direct examination. (Continued)

By Mr. Price:

Q. Mr. Brown, at the recess I think you were talking about what former presidents and former officers of merged banks were able to do following the merger which they had not been able to do before, and you mentioned their authority to lend larger sums of money. Is there anything else that you can tell us now about the activities of those former officers?

A. Yes, I can. In the operation of all of our branches, not only the branches which were formerly acquired through mergers, being the head offices of banks, we always try to staff them in a fashion where there is a manager and an assistant manager, and we have the opera-

[fol. 3293] tions of the branch separated from the administration of the branch. This allows the former officers of the merged bank and all of our branch managers, in fact, to circulate more in the community. We in fact

try to insist that they take at least one day a week and not be in the bank at all so that they might be performing services and helping customers at their places of business.

Q. What is your policy with reference to maintaining the services of persons who had been in the bank before the merger?

A. We are very anxious to retain all of the officers and employees of the banks before they merged, because we want to keep up as much as possible the continuity of the relationship of those officers and those employees with the community where they have been previously located.

Q. One or two of the IBA witnesses—I don't remember their names now—but one in particular referred to the situation in his community where the branch manager thought he was only good for about a year before he was moved to some other branch and therefore either never developed any or didn't have any interest in the local community. Does that situation exist in any of [fol. 3294] your branches?

A. No, it certainly does not. That was Mr. Harding from out in Pleasanton, California, where he was describing the operation of the Bank of America, and so forth.

Q. What can you say about the participation of your local people in local community activities? Is that encouraged or discouraged, or how does it operate?

A. We very much encourage it. As a matter of fact, we almost insist that they take an interest in local community affairs. As a matter of fact, even with the staffing of our branches to the extent that they are new, or where they have been older branches, we try to have all the tellers coming from the communities in which they work, so that they belong to the churches there and belong to the civic activities, and the officers particularly are encouraged to take a genuine interest in all the business affairs of their particular communities and all of the charitable and civic affairs of the communities.

Q. What significance is there in having the tellers from the community and familiar with what is going on?

A. Well, we feel that the people who are going to mostly deal with those branches are going to be people living in the neighborhoods, and therefore when they come to

[fol. 3295] the branch we want as favorable a reception as we can provide for the people who live in the area.

Q. Have them called by name?

A. That is right.

(Document headed "Girard Trust Corn Exchange Bank, Principal Civic Affiliations of Branch Managers" was marked Exhibit D-37 for identification.)

Q. I show you a five-page exhibit marked D-37 and ask you what that is.

A. This is a list of the principal civic association affiliations of our branch managers. Would you like me to refer to some of them?

Q. Yes. I don't want you to list them all, but if there are any in that list to whom you would like to call particular attention, I wish you would do so.

A. Well, let's take the first one, Mr. Brewer Walton. He is known as Mr. Frankford. He has lived there——

Q. What is his full name?

A. Brewer Walton. He has lived in the Frankford community all his life. He is a member of the Northeast Philadelphia Chamber of Commerce, the Kiwanis Club of Frankford. He is a Frankford Hospital trustee and vice-president. I think he is likely to be president in the next [fol. 3296] year or so. He is a member of the Northeast Boys Club, the Historical Society in Frankford, and the local Luncheon Club of Frankford.

Q. Has he lived in Frankford for any appreciable period of time?

A. He has lived there for many, many years.

Q. His position as manager of the office, does that put him in charge of the entire operation there? What does the title manager mean?

A. He is not only the manager, but he is also assistant vice-president of the bank and has charge of the Frankford office operation of the bank at 4700 Frankford Avenue.

Q. What was his position with the bank before the merger?

A. Well, Mr. Walton has been with the bank for many, many years. Mr. Walton was actually an employee of the

Oxford Bank and Trust Company that merged into the Corn Exchange National Bank many, many years ago.

Q. Is there anyone else to whom you would like to call particular attention?

A. Well, I think, say, in Montgomery County, on page 3 we have Carl Metzger. Carl Metzger was the former executive vice-president of the Narberth Bank. His father [fol. 3297] is the president. He is quite an elderly man now, but he continues as head of our Advisory Board.

Mr. Carl Metzger is a member of the Narberth Business Council, a member of the Rotary Club in the Bala-Narberth area. He is a member of the Main Line Chamber of Commerce. He is also a member of the Penn Valley Association. He lives, of course, in Penn Valley, which is very close and is practically a part of Narberth.

Q. What was his connection with the Narberth Bank before the merger?

A. He was executive vice-president. He is vice-president of our bank now.

Q. Anyone else?

A. Well, we will take Mr. Reller in Ambler, Walter Reller. He was the former president of the Ambler National Bank. He is treasurer of the Upper Dublin Township Authority. He is director and treasurer of the Ambler Chamber of Commerce. He is associate director and treasurer of the Ambler Community Ambulance Service. He is treasurer of the Upper Dublin Boosters. He is a member of the Police Pension Fund, and he is a member of the Kiwanis Club of Ambler.

Q. Has he lived in Ambler for any appreciable length [fol. 3298] of time?

A. Yes, Mr. Reller has lived in Ambler for many, many years. I think perhaps he may even have been born there.

Q. In connection with Mr. Reller, would you refer to D-36, the previous exhibit, and look on page 2, and tell me whether that is the same Mr. Reller, W. Reller.

A. Yes, that is the same Walter Reller who is the former president of the Ambler National Bank.

Q. Will you now just compare the difference in his lending authority as a member of the Ambler National

Bank before this merger with the Girard and his authority now.

A. While it was the Ambler National Bank he could loan up to $5000 unsecured and $50,000 secured.

Q. For amounts above those what would he have to do?

A. He would have to go to his Board of Directors in order to obtain approval to make loans of more than $5000 unsecured, but now, as this record shows, he can make $50,000 in unsecured loans and $200,000 in secured loans, and if he wishes to make one more than $50,000, he can join with any vice-president with lending authority downtown or any of our other branches and expand this [fol. 3299] to $100,000.

Q. So that he doesn't have to go to the Board of Directors until he gets $100,000 or more?

A. Actually he doesn't go to the Board of Directors then. We have an officers committee that approves loans up to $350,000.

Q. But now he is free to make an unsecured loan in the same amount as before he could make a secured loan?

A. For a secured loan he could make up to $50,000, that would be a marketable collateral loan, whereas now he can make $50,000 without any security.

Q. Is there anybody else on this list, D-37?

A. I thought I might refer to one of our new branches at Fort Washington. There we have John Astler. John Astler is a young man who has lived in the Ambler community all of his life. He is an assistant treasurer of the bank, he is a vice-president of the Ambler School Board and he is also a member of the Fort Washington Industrial Park Management Committee, the Fort Washington Industrial Park being right across the street from our office.

Q. What is your practice with reference to securing unanimity of approach to general banking problems in all your branches and maintaining a thorough knowledge [fol. 3300] of the problems of the officers who meet from time to time?

A. We have a regular program of communication and development of all our officers in our branch offices. We have regular meetings a couple of times a month of the

managers of the offices and the assistant managers of the offices, depending on their particular field of work and their particular stage of development. We have perhaps a credit course or discussion of loans for the making of loans for the less experienced, and for those that are in the management, administrative end of the branch operations, we have them in and discuss all of the activities of the bank, the progress the bank is making, what our loan policies are, what we think about the economy; and I might say that in these meetings I personally meet with all these branch managers at least once a month and let them know, from my point of view, what the bank's objectives are and how we hope to reach those objectives.

Q. What effect, if any, does that have on the capacity of the local branches to serve the community better?

A. Well, we find that by bringing all of this information to these branches, which in the case of the merged banks they never have an opportunity to learn, about estate [fol. 3301] planning and investment advisory accounts and Foreign Department transactions, all kinds of loans, types of term loans, this information would have never been conveyed and, of course, was not even in the life of the former banks, and we believe that by developing these people in this manner and bringing to them up-to-date information as to the bank's functions and objectives, that they are much better men for having had that experience. They seem to react to it very favorably.

Q. What about the public in general that is served by those banks?

A. Well, it naturally follows that the public in general, dealing with men who are much better informed than they had been heretofore—they do a much better job for the public than they were ever able to do before.

Q. Are there any plans for changing that practice if the merger of the Philadelphia National Bank and the Girard would be effected?

A. We certainly have not. I would say that we would proceed even more intensively, since we will be a bigger bank with greater facilities, to be sure that all of our branch people are fully in on the gain that we are conducting and the activities that we have.

[fol. 3302] Q. What can you say generally about the capacity of the branches, and particularly of those that were acquired through merger, to expand the services which they render through their respective mergers?

A. There of course has been a great improvement in the services that we brought to the branches. The activities of a bank the size of the Girard and the Philadelphia National are so much greater than they are in a relatively small bank that the differences in service are quite marked, and our customers' reactions are very much on the favorable side, because they now find that they can get all kinds of service at home merely by discussion with our people, who are more familiar with banking in general and Trust Department activities in general; and those things they do not know, there is a ready access to some officer they know downtown who can give them information that they might not have even ever been able to get before.

Q. Are there types of services or particularly types that can be offered and now are offered that were not offered by the branches before their acquisition by Girard, either by merger or otherwise?

A. There are many such services, particularly in the [fol. 3303] trust field of the bank's activities and in the banking field. Of course, their lending authority, by reason of the size of our capital and surplus, has been greatly increased. They are able to make loans to businessmen in the community that they never were able to even consider before. They are able to deal with accounts receivable loans, something they had never considered before, and other types of, say, foreign transactions, which were something that they knew little about. They are now able to take an active part in bringing these services to the communities.

Q. Were such services as were represented by your Charge-Write system or consumer credit practices available in all the branches before you took them over?

A. No, they were not. We did have Charge-Write, because this came to us with the Upper Darby merger. We made this available to all of the branches, so that this now can be obtained in the 39 different offices, where before it was started, as I say, in Upper Darby and they had that particular service.

Q. Are all the services which are available to a customer of the Girard at its central office available also to any customers of the bank through any of the branches? [fol. 3304] (Document headed "Banking and Trust Services of Girard Trust Corn Exchange Bank" was marked Exhibit D-38 for identification.)

Q. You mentioned not long ago the 101 services. I show you an exhibit marked D-38 and ask you what that represents.

A. This represents the 101 services that the bank performs. Perhaps I indicated yesterday, we have actually adopted this particular amount of services into the slogan of the bank, because we say that we are the bank that serves you in 101 different ways, and these are the 101 different ways we do serve.

Q. That is a list, but I think there were a few that were combined, were there not, in this, so that if you add them up you won't get quite 101, but do they represent the kind of service or the services that are rendered?

A. Yes, they do. They represent really the whole gamut of services which the bank provides in both the Bank and Trust Department areas of the bank.

Q. And these are available to any customer of any branch?

A. They are not only available, but we endeavor to [fol. 3305] have them use these facilities wherever we think we can bring greater service to the public.

Q. You mentioned I think perhaps yesterday the competition that you receive from non-bank enterprises, non-bank lenders, and you went into some detail about mutual savings banks, savings and loan associations, and others, that provide competition which commercial banks were not accustomed to a relatively few years ago.

A. Competition seems to come from almost every different source, and if you think you have settled one day, you find you have some new competition the next. I have in mind, for instance, the life insurance companies. We have a very effective plan in our bank for financing the education of students in school. We make quite a specialty of this. As a matter of interest, this past year we financed the education of 5600 different students in 71 different col-

leges and schools, and we now find that the Prudential Life Insurance Company is in the tuition loan business tied in with an insurance plan. That same company engages in the term loan business, and they have been able to develop a plan where they take relatively short-term loans as [fol. 3306] against the usual practice of insurance companies that take long-term loans.

Then we find in the Equitable——

Q. May I interrupt you a moment? Is that a new activity on the part of insurance companies or have they been doing that?

A. No. Both these things are relatively new. You see, one of the problems with the insurance companies is that they have tremendous sums to invest, and they have very intelligent people working for the insurance companies, and they are trying to find ways and means to employ those funds to the greatest advantage, so that if you think that competition just results from one particular activity they have, you never know tomorrow what the next activity is going to be, which is going to have an effect on your particular business.

I was just going to mention the mortgage situation. The Equitable of New York have a mortgage package that they have had sometime, where they give you, if you buy insurance, a mortgage at a more favorable rate than would otherwise be obtainable, and they also have a special plan where they not only take a mortgage on property, but they take a mortgage that covers the fixtures in the property as well as the property itself, which is a specialty [fol. 3307] that they have been engaging in.

Then we have the pension and profit-sharing trusts. These trusts are providing more competition all the time. We find pension and profit-sharing trusts making relatively short-term term loans. Just a short time ago relatively I was quite surprised to find that a $1,800,000 mortgage was taken by the Chase Manhattan Bank for a pension fund on the Lewis Tower Building here at 15th and Locust Street, and as they are taking issues of securities or loans that are placed privately, we find them encroaching either right in our field or on the edge of it, and as they get more and more money, and they are growing like Topsy, they

will be finding some other way to get into business which competes with banks.

[fol. 3308] Q. This Chase mortgage that you speak of, that was a pension trust that they were running in New York?

A. Yes. They are administering this pension trust in New York and they apparently had an opportunity—I didn't know the opportunity was even available—to take this $1,800,000 mortgage.

Q. Now has the development of this competition with the non-commercial bank, sales finance companies, savings and loans, credit unions, and personal finance and personal loan companies, been a development over a long period of time or over a relatively short period of time?

A. I would say that much of it relates to recent years. The credit unions appeared not to be a threat to banking until recent years. Now they are expanding and growing very rapidly.

The types of loans that life insurance companies make, the pattern has changed in recent years.

I think the savings and loans, of course, themselves, are of relatively recent origin and they, of course, have had probably the most phenomenal growth of any competitor that we have been up against.

The sales finance companies and the personal loan companies have all been in business a number of years, but their demands for credit as they have expanded wtih the economy have been so great that they have been very [fol. 3309] active competitors for the investor's dollar. Anybody who gets that money usually gets it out of the bank and there is that much less money for the bank to use in the activities of what might be called commercial banking.

Q. I was going to ask you what effect, if any, all of this new activity that you have described has had on the conduct of commercial banks that you didn't think of 25 years ago.

A. I would say it has us very much on the run. We are continually working very hard to just hold our place, and I am sorry to say the commercial banks have been slipping, rather than going forward despite the great effort that we are putting in to improve our position and

to hold our business. We have been in a declining trend for quite a long time.

Q. Will you turn to page 95 of the application, Exhibit No. G-97.

A. I have that.

The Court: Just a moment, Mr. Price.

By the Court:

Q. In your answer to the previous question you said savings and loan organizations are of rather recent origin or words to that effect. Now that is not the fact, is it?

A. I should have said Federal savings and loans.

Q. I thought you meant that ahead of it.

A. Thank you, yes.

[fol. 3310] Q. But you didn't say it.

A. No. I wasn't thinking of the building and loans associations that are state-chartered. I meant to say the Federal savings and loan associations.

Q. All right.

A. Thank you.

The Court: Go ahead.

By Mr. Price:

Q. On page 95 of the application, towards the end of the paragraph headed or designated "A," there is the sentence:

> "However, it is probable that actual competition by insurance companies is not significant. Long-term borrowings have tended to gravitate toward the insurance companies while commercial banks are more active in the field of short-term loans."

A. I can't seem to quite follow that.

Q. Page 95.

A. Yes. I have that.

Q. Toward the end of the first full paragraph designated "A. Insurance Companies."

A. Oh, "However, it is probable that actual competition . . ." Yes, I have that.

Q. Yes, those last two sentences.

Would you care to comment on those in the light of your [fol. 3311] description of the more current or more recent activities of insurance companies?

A. I would say that this is a rather fair statement.

> "However, it is probable that actual competition by insurance companies is not significant. Long-term borrowings have tended to gravitate toward the insurance companies while commercial banks are more active in the field of short-term loans."

I think that is a fair statement, although I think that the competition is a little stronger than this would seem to indicate.

Q. What is the present tendency and what would you anticipate for the future with reference to insurance company competition as compared with what it has been?

A. I would say that the tendency is for more competition and not for less.

Q. Mr. Brown, what, if any, participation did you, yourself, have in the merger negotiations leading up to the merger agreement between the Girard and the Philadelphia National Bank?

A. Well, I participated quite actively in those negotiations, had frequent meetings along with Mr. Smith, the Chairman of our Board, with Mr. Potts and Mr. McDowell, their Executive Vice President.

This was over a period of months and we all, I might [fol. 3312] say, participated very actively in those discussions.

Q. What, in your opinion, were the principal reasons for the merger or for the agreement to merge?

A. Well, I felt that the possibility of merging with the Philadelphia National Bank presented a great opportunity to both banks.

I had long felt that the Philadelphia banks were not large enough properly to serve the expanding business of the community and that when this possibility came before me I felt that it was something that ought to be done if it was at all possible to do so.

I had watched for some years past the very modest growth of deposits in this area. Each year we spent a

great deal of time and effort getting away from the other banks the business that they had; they spent a great deal of time and effort in getting away business from us, and when we added it up at the end of the year nobody had very much more business than when they started.

I felt that if we could put a bank together that had the resources to be able to embark on other activities, that we could build a great bank. I had in mind with these resources that we could expend more of our efforts outside of the Philadelphia area, on the regional basis. I thought we could also do more internationally; that with the re-
[fol. 3313] sources that we would have we would be in a position to actually have full-time representatives abroad.

Also, I felt that if we could, by reason of a better prestige and a better stature position as far as our size, we could attract business to the community, we could keep business from leaving this community, we would have more money to serve the Philadelphia public, we would really have more money to do more business in Philadelphia for Philadelphia people, both large and small.

I felt that perhaps we could develop an Economic Department, which only larger banks could afford. I felt that we could do more forward planning for the over-all bank as to its future, and by getting in this position we could do not only a great service for our stockholders, but we could also do a great service for the City of Philadelphia.

Q. What are the immediate tests that you applied to determine whether you thought this was a good thing or not?

A. Well, the first test that I applied, and I thought about it at great length, was the purpose. As a matter of fact, I might say that I used as a formula "3 P's." One was Purpose, the next was People, and the next was Price.

I felt, as I thought about the purpose of the merger, that we had a very, very sound proposition based upon some of these comments I have just made.

[fol. 3314] After I determined in my own mind that there was a real purpose for this merger, I then turned to the question of how we could make the greatest use of the people and I found that we had people who could get

along together and people whom we could develop as a result of bringing these two forces together.

As part of the merger transaction we agreed that no one would lose his job, no one's position would be any lower than it had been before, if it were at all possible to maintain that; and this is possible in practically every instance; and that we would be able to develop a breadth and depth of management that just would not be possible in a bank of our size.

So that we found that we had a very satisfactory solution, we had enlarged horizons for people. We then moved to see whether the price might be acceptable.

This took some doing. A bank as big as both of these banks, there were many things to be considered, so we found that we could find a fair basis of exchange, a fair price.

So from my point of view this was a perfect situation. We had a fine purpose, the people were being taken care of, and the price was right. This was my analysis, briefly, of where we were going and why we should be moving in [fol. 3315] that direction.

Q. Now there has been a good deal of talk in this case about lending limit, as if the lending limit were the test to be applied to the capacity of a bank to do business or to serve.

What can you say about the significance of lending limits as such in a bank's operations?

A. Well, I think indeed a lending limit is a very important consideration. A lending limit gives a bank stature and prestige and there is no substitute for that in carrying on the affairs of a bank.

But more important than the lending limit in all of this, from the very beginning and now, has been my feeling that resources are the real and primary value in this whole situation. It is the resources that we will be able to make effective that makes this a real merger; and the lending limit, no matter how important, is merely the vehicle which enables you to use those resources after you have sold somebody on the idea that they should use those resources. There is no use of selling somebody on doing business with you and using your resources and then, when you come around to engage in loans to those

customers, have to say, "Well, we are sorry, we have sold you a fine bill of goods, but we don't make that type of loans, we are not big enough."

This just doesn't follow, so that the lending limit is [fol. 3316] tremendously important. In my mind the lending limit is something that has to do with your stature and your standing and gives you a chance to do business that you would never have a chance to even consider otherwise.

Q. What can you say about the lending limit as the measure of actual loans that are made?

I notice that although a line of $8 million was list on that exhibit that was offered a day or two ago indicating deposits in the Philadelphia National Bank, the loans that were made against those deposits were substantially less in most instances than the lending limit. I would like you to comment, if you would, on the general relationship between loans that are made in practice and the lending limit of the institution making the loans.

A. Well, the lending limit of a bank, as I have said, gives it real stature and standing, but you extend this lending limit to very few customers. Actually, a customer who needs your whole lending limit and does not leave any room for himself for emergencies is probably in the wrong bank.

If your lending limit is $6 million, as ours is, and the person who is making use of our lines of credit would feel he would have to have $6 million from us, he would have to be in two or three other banks or not be in our bank at all, because when you deal with people who are arrang- [fol. 3317] ing credit arrangements with you, you always arrange a cushion, and if a man thinks that he needs $2 million for his credit purposes, let us perhaps give him a line of $4 million.

You don't give him a line of $6 million, so that you expect he will be pushing against that line. If he has real need for $6 million, as I say, he really should be in another bank because there should be a cushion in all of these lending arrangements.

If someone needs a $1 million line, that particular person who needs that is not going to borrow $1 million. People who have lines from us very seldom, except in the

case of finance companies, ever use the whole line. They always feel that there should be a cushion so that it necessarily follows that in a bank of our size or when we have a $15 million lending limit when this merger (and if it is approved) is completed, we will not be giving a $15 million line to people with the expectation that they are going to borrow $15 million. We will probably give them lines of $10 million and they know, however, that they are under a roof where they can get another $5 million if they need it.

But you will not find in banks like my own, nor in banks around the country, companies asking for the whole lending limit of a bank. They only ask for some share of that and then take a good look at how much more cushion there [fol. 3318] is in this bank.

So that from the standpoint of your lending limit and your loans, there is always and should be a real differential between what a man expects to borrow and the amount of your lending limit.

Q. I notice in the exhibits showing participations which you discussed this morning that although the New York banks and occasionally a Chicago bank had the largest individual shares, the amounts that they took were substantially below, and in a number of cases very much below, their own lending limits.

Is that a usual or an unusual situation?

A. That is the very usual situation. It is indicative of the point that I am making.

Take the Chase Manhattan Bank, which probably has a $65 million lending limit, the Bank of America probably has a $50 million lending limit. Nobody borrows that kind of money from those banks. As you saw this morning from those participations, those banks that were participating in those transactions at the request of the companies were taking $2 million and $3 million participations and having probably lines in those banks of ten times that much; and then still have room between the line and the amount of the lending limit of the bank.

[fol. 3319] No one just pushes against the lending limit of the bank for, as I say, if that's what they have to do, they had better get in another bank, there is not enough room to move around.

Q. Now you spoke about resources as the significant characteristic of a large bank. Of course, the resources as such bear a direct percentage relationship to the lending limit under the law.

A. That is correct.

Q. But how do the resources as such become so significant in the banking business?

A. Well——

Q. Give us an example of how that operates.

A. Well, you take this new bank that we are planning. We will have a lending limit of $15 million, but we will have capital assets, that is, capital, surplus, undivided profits, and reserves, of about $200 million. It is these resources on which we can build business and qualify for business from larger concerns, that is going to enable us to afford the kind of things, the kind of activities, the kind of facilities that a bank of the size of ours now just cannot afford.

You just cannot afford to get the personnel, spent the money on advertising, spend the money on setting up specialized departments, departments that, let's say, spe- [fol. 3320] cialize in steel, oils, petrochemicals.

And also another thing that I perhaps even mentioned before. With this expanded staff that we will have, that the resources will allow us to have, we will be able to promote Philadelphia to better advantage around the country. We will be able to try to bring to the attention of businessmen around the country to a much greater degree than we can now the facilities of our new industrial parks, and while we won't bring them here because of our lending limits, we can bring them here because we have developed their interest in the community; and if we do this we have done a real service for Philadelphia, as well as for ourselves, because we would expect to be the bank of that company that we would bring to this community.

Q. Do you consider that either the Girard or the Philadelphia National Bank separately is large enough or adequate to serve the needs of the Philadelphia community and the businesses that would like to do banking business in Philadelphia?

A. I certainly do not think we are large enough. We just do not have the resources to do what a first-class

bank should be able to do in a community as active as Philadelphia.

Q. This activity or these activities that you described a moment ago as new activities that the enlarged bank could undertake, are such activities commonly engaged in by [fol. 3321] large banks in other active communities?

A. Indeed they are. If you go over to New York you will find that they have very fine Petroleum Departments, Steel Departments, Transportation Departments; and it is this know-how and this ability to get customers that bring them to the bank.

This is more important than those New York banks' lending authorities and their lending limits. The important thing is that they have got the know-how, they can help a business customer. They bring him in and they can add something to what he already knows, and they are familiar with the kind of business he does. For that reason, they get a chance to handle large business, which a bank like ours and the Philadelphia National just cannot afford to produce on our own.

We have tried this in the wool field. We had a poor experience there. We probably were among the leaders of the wool banks in Philadelphia, but the wool business, as you know, through man-made synthetics and whatnot, has pretty well collapsed.

But we built ourselves a real reputation in the wool business. We built ourselves a good reputation in the food business. This gave us dealings with the farmers, with canners, processors, and the can companies.

[fol. 3322] All of this brings you business, but as far as our bank has been able to get so far is to go into these fields in a minor sort of way, but it has taught us a lesson that the more you know the more you are able to understand the customer's problems, the greater opportunity you are going to have to do more of his business.

Q. Have you been conscious of any pinch by virtue of your size in the development of these various activities and meeting your customers' needs?

A. Yes, we have been.

Q. Can you give us some illustrations of that, how the size of the Girard has operated adversely to the conduct of your business?

A. Well, the size of the Girard, when we go out to solicit business throughout the country, we think we make pretty favorable impressions on the people that we call upon. We send first-class people to call on them.

But we find that business does not open accounts with you and borrow from you and make arrangements with you because of your personality. You have got to have the know-how; and we constantly, on the national scene, are told, "Well, if you were a bigger bank, when you are a bigger bank, come around again."

Well, this means coming around with some real sophisti- [fol. 3323] cation; and that, we have not been able to afford.

Q. How has the mere size of the bank operated with respect to completing the transactions which you have been asked by somebody or in which you have participated?

Can you give us any illustrations how the size has an effect on your ability either to participate in or serve your customers' needs?

A. Well, our size has been a handicap in many ways. We find this particularly when perhaps we are very well in the favor of some company. Perhaps we have done a particularly good job for that company. If they need some extra service that involves size, we lose out.

We also find the pinch of size as we bring customers along. Somebody starts in a very small way and we continue to loan them money and help them with their business, and then we reach a point when we look at our resources and say, "Well, as related to our resources, we had better not go much farther with this particular businessman"; and nothing hurts any more than to have to invite another bank in, which any good banker would do when he feels that maybe he cannot go any further, or to have one of our New York friends call at that point and offer to carry on and to extend services that because of their resources they can extend, but because of our resources we feel that on the theory of too many eggs in one [fol. 3324] basket we just cannot follow along with the growth of the companies, particularly when we look at our own resources as related to the company's resources with whom we are dealing.

Q. Is that point where you stop anywhere near your lending limit?

A. Oh, no.

Q. Has it any relation to your lending limit?

A. It hasn't a single thing to do with our lending limit. It has to do with the fact that, well, we have gotten $1 million or $2 million in this business, it may look like a great growth situation, but the company has not had a sufficient amount of capital investment. They have not been able, because of their growth, to build up their capital; and we find that because of our own resources we just can't continue to do this by ourselves.

Q. Why not? Will you explain what you mean by that? That is what I would like to hear.

A. Well, the reason that we feel that we cannot is that there is only so much risk that a bank feels that it should take in relation to its resources; so that if we have a $60 million capital and surplus, if we get up to $1 million with some customer, this is $1 million as related to that $60 million.

If somebody has $200 million in resources, well, the $1 [fol. 3325] million can be $2 million or $3 million before you feel the effect of the caution and the nervousness which comes when you see a loan in relation to your own resources, when your own resources are relatively limited.

Q. How does that affect or operate upon your ability to serve these smaller growing companies in this area as distinguished from the very large well-established companies that are entitled to the prime rate for any amount they want to borrow from you?

A. This really makes quite a difference. The large companies that want to borrow from us have beautiful annual reports and you look at their working capital positions and you don't have to pause very much about making the loan. That can be done almost over the desk.

Whereas, with a growing business, which there have been and are in Philadelphia, this presents real problems because of the fact that growing businesses suffer great pains of lack of borrowing power, lack of invested capital. While we have great faith in these people and we bring many of them along and stay with them for a long time, there gets to be a point when a banker says, "Well, one

more step is just too much step," because of our own resources.

Q. And you are speaking now about a range where? Your limit is $6 million, but what kind of money are you [fol. 3326] talking about now, where you think that you might have to stop?

A. Well, I would say that when we get up to say $1 million to a company and we feel that that company is not as well capitalized as it should be, we think a second time before we go on to the next $250,000 or $500,000.

In many cases, we just felt that we had to bring in another bank at that point in all fairness to the customer or we would just hope and pray that something would happen to that customer, that he would go out and sell his stock to the public and improve his capital position so that we could stay with him.

Q. Have you had any illustrations or examples of losing either a customer or part of a customer's business to New York banks or other banks because of that limitation?

A. Yes, we have had.

Q. Without mentioning the names of the customers, could you illustrate how it operated?

A. Well, we have a customer who has a $2 million line of credit with us. He has had fabulous growth. We have also extended a $750,000 term loan to enable him to buy out his partner.

We have just about gotten to the point where we just feel we can't go any more. Here is an extension of credit of $2,750,000. The business has grown very well. As [fol. 3327] a matter of fact, it started in a very small way in back of a building and they are now having sales up in the many millions of dollars.

We are in this uncomfortable position, although we just recently found the First National City Bank of New York calling at that man's door, offering to extend him substantial lines of credit; and here we are feeling, because of our resources, that we can't go any farther, and it looks like the First National City Bank will come in to help us out, and this, to me, I think, is most unfortunate.

We have been with this man from the time that he probably had sales of about $50,000, and it is very difficult to

have to face up to the situation in which we find ourselves.

Q. Could the First National City Bank take over his entire banking requirements?

A. As yet we still have——

Q. I say could they.

A. Could they? They probably could without any trouble at all.

They probably wouldn't because they are good friends of ours. We could still keep a part of it, but they would help him out substantially.

The Court: Let's take a 10-miute recess.

(A recess was had.)

[fol. 3328] Q. Can you give any other examples similar to the last one that you mentioned where the National City stepped in, that you couldn't carry on because of your limitation in size?

The Court: Or customers credit.

Mr. Price: Or customers credit.

A. Well, I can give other examples, yes. I have one that involves a line of credit that we extend to a Philadelphia company of $1,500,000. This company, interestingly enough, started in a garage, and their sales are up in the air, around $15 million now, and we reached a point with them that a million and a half was as far as we thought we could go. At our own suggestion, because of reaching this point, we suggested that they ought to consider another bank. We tried to recommend someone who we thought would be as little competition as possible, but they decided to pick one that is quite a competitor of ours, but in this case the business that we had brought from its infancy, another bank has come in to share our loans and deposits with that bank.

Q. Had the merger taken place, would a bank with the resources of the proposed merged bank, the Philadelphia [fol. 3329] National and Girard, be able to have carried that customer along still further?

A. It certainly would. This problem would not have yet arisen.

Q. Now, reference was made to the quality of the credit of the customer. These customers where you stopped short of your lending limit, and others, does that mean necessarily that their credit is bad?

A. Oh, no, it doesn't mean that their credit is bad at all. The customers have good credit standings. It is just a question of various relationships of invested capital by that company, the working capital they have, and their own resources. If they are successful, they are going to warrant as much credit as we can give them and more. We do face this problem where we become uncertain and nervous about whether we can go on any farther.

Q. Can you think of any cases in which this credit situation did not exist, where the resources of your bank were ample to take care of whatever the needs of the customer were, and yet still because of your size the customer went elsewhere or you lost some business?

A. I can give some very good examples of that.

[fol. 3330] We obtained a customer, we solicited his business—and bank customers don't come very easily—we solicited his business from 1944 to 1953. At that time the company decided to create a deposit relationship with us and to also consider us the lead bank.

Q. Did the customer have any other banking connections at that time?

A. Yes, the customer had other banking connections in the community in which the business was conducted. This other bank that he had been dealing with didn't have our resources, that is, comparable resources, and they thought that we could do the job for them, and they wanted a million and a half dollars in credit. They were a very strong company. We arranged to take care of part of this. This million and a half was to be split $750,000 in a term loan and $750,000 in a revolving line of credit. We set up this credit in 1953, when we obtained the account, and everything was sailing along very fine until 1955, when they decided to enter into an expansion program involving an expenditure of $11 million. They consulted a New York broker about how they could best arrange this financing, and he told them he thought they ought to sell [fol. 3331] some stock. They did sell $2 million worth of stock. He told them also that they ought to get a $4 mil-

lion revolving credit arrangement and also there should be a sale of subordinated convertible debentures.

Q. Revolving credit would be bank credit?

A. The revolving credit would be bank credit.

The amount of 15 years subordinated debentures was $5,277,500. This added up to something over $11 million. The New York broker and the underwriter, a good friend of ours, said that if he was going to market that debenture issue, that this could best be done by obtaining a bank to handle their financing that would have very large credit lines, and that a New York bank as the lead bank would make the debenture much more acceptable to the street.

The company felt it had no alternative. It selected the Manufacturers Trust Company of New York to be their New York bank. The Manufacturers Trust Company of New York extended this $4 million revolving credit arrangement, with the help of banks that it had previously to the time the New York bank came in.

Q. Your bank and the other bank?

A. Our bank and the other bank and a couple of other banks. Actually, the Manufacturers Trust Company only [fol. 3332] took $1,550,000 of this $4 million revolving credit, but we were placed in a subordinate position, because the company told us very regretfully that they certainly wanted us to continue in the situation, but the best that they could arrange for us was to give us a $500,000 participation in this $4 million revolving credit, and we found ourselves in as just one of the other banks. This also took with it, as it oftimes does, the trusteeship of the bond issue, the paying agency for that bond issue, and also the conversion agency having to do with the conversion of the debenture bonds, so that we not only lost our first position in New York, but we also lost the corporate trusteeship that we might otherwise have had.

In this case it illustrates quite pointedly the fact that the Manufacturers Trust Company in New York—I don't know just what their lending limit is, probably 20 or 25 million or more, they are only extending $1,550,000 and they are the lead bank.

Q. And they got the position that was recommended entirely by this broker?

A. That was recommended by a New York Stock Exchange house that was underwriting the debenture issue. I don't believe they knew the company before that time.

[fol. 3333] Q. So far as the credit was concerned and so far as your capacity to lend was concerned, could you have handled it just as well?

A. We could have handled it just as well, but it didn't seem so. The bank in New York with the large credit facilities seemed to make the bond issue a more palatable something for the investor.

Q. Have you any other illustrations of that situation?

A. Yes. Our corporate counsel, one whom we have on retainer, introduced us into a transmission company situation. This transmission company—he was also counsel and a director of that company—needed extensive facilities for borrowing. They wanted to set up a $75 million revolving credit. We asked them whether we couldn't get in on the helping to set up this credit. They told us that they thought this could be arranged, but word came back to us that they had spoken to five of their banks in New York, that each one could loan $15 million or more—this was the $75 million—and that we therefore could not be taken in as one of the original participants because if we were taken in, smaller banks than we were would also have to be taken in and it would complicate the financing.

[fol. 3334] We thought we had a little break when that same company formed a subsidiary in Pennsylvania, wanted to market an issue of $6 million in the form of revolving credit. We got the privilege of arranging that $6 million credit for that company with their banks, and as luck would have it, they merged the subsidiary into the parent company, so we are back where we started, and that is the best that we have is a $2 million participation in a loan where the Manufacturers Trust Company in New York, who is one of the participants, has at the request of the company participated $2 million to us.

Q. And how much has the Manufacturers got of that loan?

A. They have a total of $21 million, of which we have two, and they participated, I think, to some of the smaller banks in Texas other sums. I am not sure just how much.

Q. Any more like that?

A. Yes. We were the sole bank for a small utility company. This small utility company was merged into a larger utility company. The larger utility company was a customer of ours, and they needed a $12 million revolving credit. They gave us the privilege of arranging that [fol. 3335] with their banks. We thought we did a preety good job, but I must say that this required some sizeable chunks of money. We were dealing with smaller banks. It took a little time. We got a number of lawyers involved, and we, however, didn't arrange the $12 million credit.

I think the company always felt that we were inadequate in that regard, and shortly thereafter they established a $15 million credit, this time not even asking us about it, and took it to a New York bank, and we now have a $2,500,000 participation in that $15 million credit.

Mr. Reycraft: Is this the customer whose deposition was taken the other day?

Mr. Price: Yes.

By Mr. Price:

Q. Any more like that?

A. I can think of several situations where we have been very much stressed about our resources in connection with our activities. One has to do with a Latin American country. There we have devoted some time to that country. We have relationships with businesses there, steel business, two steel companies, as a matter of fact, a glass [fol. 3336] company, a brewing company, a cellophane company, so that at the present time we have $5,800,000 in loans outstanding to those customers in the South American country, and we have commitments to the extent of $4,800,000 plus, so that we have $10,500,000 of credit there outstanding or committed in that country.

Here we are in a position of being able to expand those relationships with other customers, but here we pause again and we think about our resources. There are certain political exposures. It is a lot of money, even though it is distributed among a number of customers in a foreign country, and we are in the position now where we

will probably have to retreat and not go any further in advancing our interest, after having spent all this time and effort up to date in putting this business on our books.

As a result of making these relationships in this Latin American country we have brought about a considerable amount of trade, facilitated that trade with people in the United States, and as a result of it, we have obtained accounts of companies in the United States, as a result of financing this trade in the Latin American country.

[fol. 3337] It has been so much appreciated there that we have an account with the Central Bank of substantial proportions, but we now find ourselves, because of our resources, up against the problem of whether we should go any further, and this is something else that a large bank would enable you to decide that you could go just that much farther with that kind of business, and it is really a pity that we have to pause now and say, can we go any farther?

Q. You spoke of an account with the Central Bank. Do you mean a deposit account?

A. A deposit account from the Central Bank.

Q. With you?

A. With us.

Q. Made by the Central Bank of this foreign country?

A. Made by the Central Bank of this foreign country.

Q. What can you say about the effect on local business and local activities of that kind of connection if it can be carried through to its logical conclusion?

A. Well, this helps in the local field a great deal. It is one of the reasons I am anxious to have permanent representation in foreign lands. You can speak with certain authority and be of such assistance to Philadelphia busi-

[fol. 3338] nessmen who want to carry on business in those areas, and we have made this wonderful relationship with these fine companies and with the organizations there, and we can bring that information about the possibilities that exist in Mexico—this happens to be Mexico—for doing business on the part of American businessmen and particularly local businessmen. They are always interested in what opportunities exist there, and when you are really in this game you are in a position to bring them first-hand

information as to what they might expect in the way of the trade that they had hoped to carry on there.

Q. Have you any other illustrations of foreign connections of that sort which have been helpful locally, either in the United States or in Philadelphia?

A. Yes, just on a sporadic basis we have had some of our people spend some time down in South America. In Peru, for instance, we arranged to help finance the outfitting of a military hospital in Peru. Through this we obtained the business of a national company located out in Evanston, Illinois. Through this also we have been able to develop a better knowledge of the Peruvian situation, which we have conveyed to a number of our Philadelphia customers.

[fol. 3339] Also, in connection with the financing of steel mills in South America, we are able to, in connection with a company that is close by here in Reading, we are able to finance a foundry installation in a steel mill there, and this brought us the business of that customer, and we have been of great assistance, I think, to this particular customer, who is nearby in Reading, and we have also been very helpful to a customer in Harvey, Illinois, a national company, where we made credit arrangements to help expansion of a steel mill on the part of this Latin American country, so that we are building business with American companies, and this gives us a knowhow, even though to a modest degree, how to carry on foreign business and how we can make that advantageous to Philadelphia people.

Q. Do you have any more examples?

A. Yes, I have more examples. We had a customer who was in a very glamorous industry. This customer started in a very, very modest way. We have had to advance most of our advances on a secured basis. These advances have taken the form of a substantial mortgage on his plant, $485,000, $286,000 advanced on equipment in the plant, and we also grant him a line of credit of $250,000. This [fol. 3340] is a total credit extension of something over a million dollars.

We have again just about reached that nervous position as to whether our resources would allow us to go any farther or not. Here we had the blessing of having this

man go public. As I say, it is a very glamorous company. They were able to sell their stock to the public on a very advantageous basis. The company is very well capitalized now, and I think that any inroads by other banks from New York or elsewhere trying to help them out have been eliminated since this capital deficiency in the company itself has been cured.

We also have another one just like that. This company is also in a very glamorous business. We have extended money on all sorts of terms. We extend $500,000 on Government contracts. We extend $100,000 on non-Government contracts, the accounts receivable. We have loaned $175,000, now reduced to about $117,000 on a fourteen-acre plot improved with warehouse buildings. We have advanced $250,000 on the security of lands and other assets associated with that particular transaction. We have loaned $60,000 to the man and his wife, and your will find that this adds up to something over a million also.

[fol. 3341] This glamorous business has not yet gone public. It is very much in the wind, and I am saying this, if it doesn't go public, and this man does not get better capital in his business, once again we are exposed to bringing in somebody else to help us out in a business where he absolutely started from scratch and we provided everything today in all sorts of ways and all sorts of lending facilities, but we have just about reached the limit which, may I say again, the resources of the bank are important in carrying on.

Q. If the merger has been in effect or were in effect now, would this problem arise?

A. Our worriement would be very much postponed if the merger had been in effect, because it would be such a relatively small loan to the total resources of the bank.

Q. But this is the kind of customer you would like to continue with, is it?

A. We certainly do, because we think in the long run, despite the fact that he is strapped now for working capital, if what he is working on comes home, this deals with some of the things that we are hearing about today down at Cape Canaveral. If this works out it will be a great bonanza, and I think it probably will, but we are as far as [fol. 3342] we believe we can go today.

Q. Are there any different situations which you care to mention?

A. Well, we had another one. This company was in the aircraft business. It is a small, growing company, also a glamorous situation in business. They wanted to expand their activities and move out to an industrial park. We felt that while we had great faith in the company related to their capital investment and their working capital, that we just couldn't see financing by mortgage the building of this new plant.

We finally had to pass by the opportunity. I might say that another bank, which was probably much wiser than we were, had more courage, a bigger bank, came along and offered to give a mortgage on that property, and our account diminished to a very modest minimum balance. Fortunately, through a merger, we were able to get back into the business again. Meanwhile they have been going great guns. We have loaned them $925,000 now on a term loan. This was done, by the way, by one of our branch people who managed one of our branch offices, and the whole arrangement was worked out through him, and we are expecting any moment that this company is going [fol. 3343] to sell stock publicly, and when that occurs our term loan will be repaid, and I expect to see the company go along in a great way but, once again, this was really only a matter of two or three hundred thousand dollars that we felt we couldn't go because of the size of the company and because of the size of our own resources.

Q. All of these illustrations that you have given involve a loss of deposit money with the Girard when some other bank comes into the picture?

A. When another bank comes into the picture it is a matter of sharing the balances, and then there is a great battle on to see who can get ahead of the other fellow in keeping the share of his business.

I had another one that is interesting that maybe I should mention. We extended for many years a line of credit to this company. The company is in the construction business, having to do with structural steel. We had granted a $900,000 line of credit. We observed when we saw their statement that they were borrowing from another bank. We immediately went to see the company

and said we were sorry that they were not borrowing from us, and we had a $900,000 line of credit, and they said, well, this New York bank—it happened to be the Chase Manhattan—that they had been there at the op- [fol. 3344] portune time and that they had given the loan to the Chase Manhattan Bank.

So we said, "Well, we hope you will start borrowing from us."

Well, this did eventuate shortly thereafter. When the Chase heard about us—as I say, the line of credit from the Chase was $900,000 and the line from us was $900,000 —the Chase went around and they said, "Well, we will loan you $1,800,000. You don't have to bother with Philadelphia."

Well, when we heard about this we told them we would loan them $1,800,000. So now this company has a line of credit of $3,600,000.

It is a question of how much longer this can go on with this kind of competition, but I merely point it out to show you the aggressive nature of New York banks and larger banks and that there is no problem in getting lines of credit from New York banks that have relations to their resources, and while it looks like a big line of credit for us, it looks like a relatively small line of credit to the Chase.

Q. In all these instances you have mentioned would the position of the prospective merged bank, the Girard and PNB, have made this situation easier or made it possible [fol. 3345] for you to carry on these loans yourself without having a New York bank come into the picture?

A. They certainly would, and this to me is one of the great attractions of the merger, to be able to really stay with your customer for as long a period as you possibly can, and I see no real limitation as to how far we can go if we are permitted to have a bank of the standing that we are planning.

Q. I don't wish to prolong this indefinitely, but is that a common situation that exists because of your limitation in size?

A. This is the common situation that we are up against.

Q. Is there any other one, just one more example which

is different from the others that you have mentioned, which you care to tell us about in this area?

A. I have a little note of some of these companies with me. I might still have that.

Oh, yes, there is a very, very important one that I overlooked. This had to do with a large paper company. We had been a very important factor in the growth of this company. However, the company has had limited working capital, but we have given them secured loans. As [fol. 3346] a matter of fact, at the present time we loaned them $550,000 on signed accounts, we loaned them $500,000 on warehouse receipts, and we loaned them, to their sales company, a subsidiary, $1,500,000 on their accounts receivable. All of these loans were secured, but they amount to $2,550,000, and we are just about to the limit where we can go there.

This is a particularly trying situation for us because in this case we have told the owner of the business that he ought to have other banking facilities. We have even introduced him to a bank in Boston and one in Albany, and he will probably get his additional facilities there.

We also have hanging in the balance here a very large estate. We have been considering this man's affairs, from the standpoint of his Will, and this will run into many millions of dollars, so that if we get too much company, you never know what the competition might do to the estate.

[fol. 3347] I might also say in connection with some of these others that I have mentioned, the first illustration of the National City Bank coming in, there is a very large estate involved there. We are actually appointed in that estate and the more banks that come in to help out a company the more we are exposed in developing estate business for the future.

This is sort of hard going, when you have stayed with a company from early growth and then find that you have to retire at probably just the wrong time, but at a time that it seems necessary because of your resources.

Q. When you lose control of a situation in the manner that you have described so that some other bank comes in, either as a major participant or the lead bank, even though you may still be there in a subordinate position, if

you should grow through this merger to a size where you might have held the business alone, what can you say about your chances of getting it back?

A. I don't think that business lost of that nature can very well be retrieved. We are not counting so much in connection with the merger (at least I am not) in getting back business that we have lost.

What I am concerned with is not losing any more of it, keeping what we have here in Philadelphia, not having [fol. 3348] to go to New York or elsewhere.

This is the important consideration that I have in my mind.

Q. And losing business to New York or some other community, what will be the effect, if any, on losing business to another Philadelphia bank?

A. I don't think that our merger is going to affect other Philadelphia banks. The business that goes out of Philadelphia will probably go out anyway, and unless we can stop it from going out the other Philadelphia banks aren't going to get it either; so that I see very little effect of this merger on Philadelphia banks.

Q. The size of the loans that you have spoken about, with only one or two exceptions, were all within the limits of the capacity of any one Philadelphia bank of the upper group, five or six, were they not?

A. Yes, they were.

Q. And yet, in spite of that, the New York banks came in and took a dominant position?

A. That's right.

Q. Or were brought in?

A. That's right.

Q. Now would you turn to page 10 first and then to pages 78 and 79 of the application; and I make this ref- [fol. 3349] erence not for the purpose of asking you to read aloud into the record the material that is contained in the paragraphs there to which I am going to call your attention, but simply to ask you whether this is a reference in the application to the same problem that you have been discussing here today.

The first one on page 10 is the first full paragraph beginning with the words, "The third reason for the merger" and so on.

A. Yes. This is what I was talking about, about breadth and depth of management and planning, organization, economic research, and so forth.

This is what I was talking about.

Q. Now on pages 78 and 79, I call your attention to the paragraph beginning at the bottom of page 78 and continuing on the top three lines of page 79.

A. Yes, this is the same thing, having to do wtih trade promotion, which I think we will be able to do so much more effectively.

Q. Then the next to the last paragraph on page 79.

A. This has to do with the Edge Act corporation, where we hope to carry on more foreign business.

That was also another real plus in the merger, as far as my bank is concerned.

Q. Now the Edge Act corporation is something a little [fol. 3350] unusual, is it not?

A. Yes, it is very unusual.

Q. Would you care to say a word about that and about how it opens up new opportunities?

A. Under the Edge Act, it is possible, under one category of it, to establish a corporation that can engage in foreign banking and under another section of it a corporation can be organized which would engage in foreign investments and lending.

It is this latter type of corporation which the Philadelphia National Bank has recently organized and which I think probably has great promise for the future in developing foreign investment and developing interesting possibilities for Philadelphia business.

Q. Are there many of those corporations in the country?

A. Relatively few.

Q. I mean within how many?

A. Oh, I don't suppose that there are a dozen.

Q. Would the increased resources that would result from the proposed merger make it easier to carry on that kind of an operation?

A. There is no question about this. This kind of an Edge Act corporation requires capital and resources; and to the extent that we can devote more of them than is cur- [fol. 3351] rently devoted to it, the more we will be able to do and the farther we will be able to go.

Q. The examples you gave of lost business involved chiefly New York banks.

Can you tell us something about the competition that has come to your attention, to your personal attention, that is, with particular reference to the New York banks?

A. The competition of New York banks in this area is really terrific. They have a great edge on us in their ability, of course, with the resources that they have, to offer the facilities and also to bring to our community information about national business conditions, as well as foreign business conditions.

You have a bank like the Chase Manhattan Bank coming here, inviting 200 of our best customers or our prospects to the Racquet Club to hear a man whom they have employed from The Netherlands to participate in the formation of a Common Market arrangement in Western Europe; to hear all about the great services that they will be able to offer to all business in the United States, and particularly to Philadelphia business.

It shows that they have the know-how and the ability and the resources to do these things, and it pretty well puts Philadelphia in the shade.

[fol. 3352] Then they follow that up by sending pamphlets or brochures on a regular basis throughout the Philadelphia community and elsewhere, entitled "Western Europe," and where they are keeping the Philadelphia businessman advised not only about the Common Market, but also about the European Free Trade Union and so forth.

These things present real competition to us.

Q. You mentioned something about the Racquet Club that I didn't hear.

A. I said they made this arrangement for dinner at the Racquet Club, where they invited 200 of our customers or people whom we would like to have as our customers, the very top people in Philadelphia, to hear what they can do in the foreign market.

I was glad to be invited, but it's very tough going to see the kind of sales pitch being made to Philadelphia customers.

Q. Are there any other illustrations of that kind of approach that are being made?

A. Well, just very recently Henry Alexander, who is one of the top bankers in the United States, with the Morgan Guaranty, was shown off to very good advantage at the Philadelphia Club. He had along with him Mr. Thomas Gates, the former Secretary of Defense, who has just been made Chairman of the Executive Committee of the [fol. 3353] Morgan Guaranty Bank; and there I found about 75 of Philadelphia's outstanding businessmen being given a very pleasant and social evening, but having Ralph Leach, the Treasurer of the Morgan Guaranty Company, tell in a rather sophisticated way what he saw for money market conditions, interest rates, and so forth.

These are powerful pitches being made in our Philadelphia area by New York people.

Q. Was the man who was in charge of the Morgan Guaranty business present at this function?

A. Yes, he was.

Q. And is that approach an unusual situation or is it usual?

A. I know that there are all sorts of arrangements being made in Philadelphia by New York banks. The New York banks—some of their officers are here on a Monday-to-Friday basis, and I see, of course, really a great number of them from day to day on Philadelphia streets and sometimes within our bank.

Mr. Price: Will you mark this D-39, please?

(Document entitled "List of Banks with Main Offices in New York City (Five Boroughs) with Lending Limits in Excess of $1,000,000, December 31, 1960" was marked Exhibit D-39 for identification.)

By Mr. Price:

Q. I show you a paper marked D-39, entitled "List of [fol. 3354] Banks with Main Offices in New York City (Five Boroughs) with Lending Limits in Excess of $1,000,000," and ask you whether that title correctly describes the list.

A. Yes. That correctly describes the list.

Q. And the group at the top of the list——

A. Starting with the First National City Bank?

Q. The eight banks with lending limits in excess of $10

million, is that the group from which you receive the most active competition?

A. Yes, by all odds these are the active competitors in this market.

Q. Now you say people are here on a Monday-to-Friday basis. What do you mean by that? And how does it work?

A. Well, some of the principal officers of the bank only come for special occasions, but the vice presidents and assistant vice presidents and assistant treasurers are here constantly calling on customers or prospective customers of their bank.

Q. Do you know that of your own knowledge?

A. I say I do know that, and I could name 25 or 30 of them right offhand.

Q. Well, don't name 25 or 30, but name a few that are the most active and the ones that are most persistent in their solicitations in Philadelphia.

[fol. 3355] A. Well, you take the Chase Manhattan Bank, you have David Rockefeller, the President, Walter Dennis, the Executive Vice President, Lee Loree, the senior Vice President, Jack Hooper, Vice President, Joe Kennedy, Vice President, Jim Robertson, Assistant Vice President, George Hofstetter, Assistant Vice President; and, as a matter of fact, just yesterday, as a coincidence, I received in my mail a list of about five or six others who are now calling in this area in addition to the ones I have mentioned.

Q. And they are calling for which banks?

A. They are coming from the Chase Manhattan Bank.

Q. So that the Chase Manhattan alone has all of these solicitors, if that is the proper term, working actively in Philadelphia? —

A. They certainly have.

The First National City Bank, they would have Lew Sperry, Vice President, Ted Gardner, Vice President, Walter Jeffers, Vice President, Bill McFeely, Assistant Treasurer. He, by the way, is the one that is calling on my first prospect that I said where we were having New York competition creeping in.

We would also have [illegible] Murdock from the First National City Bank.

For the Morgan Guaranty, I have mentioned some of [fols. 3356-3357] those people. There is Henry Alexander, the Chairman. There is also Al Foote, Vice President, Livy Schwarz, Vice President, Jim Wallis, Assistant Vice President; and men of that character here for Morgan Guaranty.

Q. These are the people that you, yourself, have seen in Philadelphia?

A. I see them on a regular basis, and my customers are always telling me about having pleasant visits with them.

I know quite a few more, Mr. Price, but I don't suppose you want to hear them now.

Q. All right. I imagine that will be sufficient. I was warned not to give you a chance to give us more names.

Will you find page 121 of the application, to which I will now ask you to refer——

The Court: Since there are only two minutes left of the afternoon, I think that would be a good time and place to start tomorrow morning.

(Recess taken at 3:58 o'clock p. m. until 10:00 o'clock a. m. on Thursday, July 20, 1961.)

[fols. 3358-3359] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWENTIETH DAY

Philadelphia, Pa., July 20, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 3360] GEORGE H. BROWN, JR., resumed.

Direct examination. (Continued)

By Mr. Price:

Q. Mr. Brown, will you turn to Page 121 of the application.

A. 121, Mr. Price?

Q. Yes, and I ask you to read the paragraph starting below the solid line, beginning with the words, "The field of competition . . ."

A. "The field of competition of the Resulting Bank will be local, regional, national, and even international. The most significant competitive effect of the merger will be to improve Philadelphia's position in the national (and international) competition among the large banks of the country's major metropolitan areas, particularly New York, Pittsburgh and sections in the eastern part of the country."

Q. In the following paragraph will you read down to the line just below where it says Schedule 3A.

"As has been stated previously in setting forth the 'Basic Reasons' for the merger, Philadelphia is the fourth largest metropolitan area in the country (see [fol. 3361] Schedule 1 of Exhibit K). Economically it ranks fourth or fifth (Schedule 2). Its port is one of the largest in the country, and in the important category of import tonnage, it is the largest. In contrast, Philadelphia fares poorly in banking strength."

Is that where you wish me to stop?

Q. Go ahead.

A. "Schedule 3 lists the twelve largest metropolitan areas in the country and details the size of the five largest banks in each area. If these same areas were ranked in the order of the size of the largest bank in each, Philadelphia would rank ninth (Schedule 3A)."

Q. Just one more sentence.

A. "Five smaller cities have banks larger than Philadelphia's largest."

Q. Will you turn to page 127, Schedule 1.

A. Yes.

Q. Tell us what that indicates.

A. This shows the population of the twelve largest metropolitan areas.

Q. And where does Philadelphia stand in that?

A. Philadelphia ranks fourth.

[fol. 3362] Q. And that is as of 1959?

A. That is as of 1959.

Q. And then the rank in 1950 for the metropolitan area as well.

A. It also ranked fourth in 1950.

Q. Now will you turn to Schedule 2 on page 128.

A. Yes.

Q. Retail sales and manufacturing data of metropolitan areas. Take the retail sales first in the central city area. Where does Philadelphia rank in that category?

A. Philadelphia ranks fourth.

Q. Isn't it fifth, after Detroit? It is listed No. 4 but it is really No. 5.

A. Oh, I am sorry. That is so. I thought it was listed in order. It is the fifth largest in retail sales and manufacturing.

Q. That is for central city, but the next one is the total area. It is fourth there, isn't it?

A. Yes, it is fourth for the total area.

Q. Now, as to the average number of production workers, its rank is what?

A. Average number of production workers, it is ranked also fourth.

Q. And wages in 1957?

[fol. 3363] A. Its rank is fifth.

Q. And value added by manufacture?

A. Value added by manufacture, it is fifth.

Q. Now will you turn to page 132, Schedule 3A.

A. Yes.

Q. Where does Philadelphia rank in relation to the leading bank in metropolitan areas?

A. In the comparative rank of leading bank in metropolitan areas, Philadelphia is ninth in relation to the leading bank.

Q. And national ranking?

A. On a national ranking basis it is twentieth.

Q. Now, Mr. Brown, you referred yesterday, on the general subject of competition, to having business taken away from you by New York banks and other banks. What additional effect has that on your general business, trust business particularly?

A. This also has an effect on our trust business, because we find that when we develop warm relationships and close relationships with important commercial customers, we very frequently bring their business to the Philadelphia area, acting in various capacities as a fiduciary.

Q. Is the personal trust business an important part of your general business, that is, the Girard's general——

[fol. 3364] A. It is a very important part of our general business. We have in trust at the present time approximately $2,40[illegible],000,000 in trust values. This is included in about 8000 accounts, if you include our inactive life insurance trusts and our pension and profit-sharing trust in about 10,000 accounts, and it produces about 15 per cent of the gross income of the bank.

Q. Over what area or from what area does the Girard draw trust business?

A. We operate over a very wide area. We have an extremely well organized estate planning and business developing department. We have at least a dozen men who are devoting their attention to the development of new business in the planning of estates as an everyday job, and this takes us all over the United States. However, I would say that most of this activity is concentrated in the eastern part of the United States.

Q. What has been your experience with reference to the close relationship of commercial business and trust business. Just how does that operate?

A. We find that the relationship is extremely close. I spoke yesterday of a company located in New Hampshire. There is a trust estate situation which we expect to serve that will run into the many millions, which we would never [fol. 3365] have had a chance to have without a commercial relationship.

We have some very important relationships in Albany, New York, because we are the lead bank in a situation in Albany, New York.

This is also true of the owner of a business who has just recently died, in so happens, in Huntingdon, West Virginia.

We have also important relationships in Charlottesville, Virginia, as the result of commercial relationships.

Another one of our very good customers in Orlando, Florida, owns a number of small businesses which we serve.

In addition to that, we find customers throughout Pennsylvania. We work very strongly all throughout Pennsylvania. We have a very important trust relationship arising out of a strong commercial relationship from Allentown, Pennsylvania. This is also true in Berwick, Pennsylvania; Milton, Pennsylvania; Bethlehem, Pennsylvania; Elizabethtown, Pennsylvania.

Q. How does that affect your commercial deposits?

A. This, of course, helps our commercial deposits also, for in addition to being appointed as trustee under Wills [fol. 3366] or under inter vivos trusts, deeds of trust, we are able, by having this very warm relationship with the commercial customer, to be favored with commercial transactions and commercial deposits.

Q. What has been your observation with reference to the effect, if any, on smaller banks in Philadelphia when larger banks have merged in the past, particularly in the past ten years?

A. I have watched this very carefully. It seems that as we have been engaged in mergers we have had a hard time going forward with our new business other than that accomplished through mergers, where the small banks have shown terrific growth on a percentage basis. I think that as our merger which is presently pending indicates, the smaller banks are looking forward to the inroads that they will be able to make with our customers, and it will be quite a battle to try to hold our own with them. They are very fine competitors from the standpoint of particularly the small business and personal accounts, and I know that they are looking forward with some anticipation to the merger.

This growth continues uninterrupted, no matter who seems to merge, as far as the small banks are concerned, and they have the very interesting experience also of not

[fol. 3367] only growing very fast, but if one looked at the six months statement of the banks' earnings here in Philadelphia, you would find that the bigger banks for the most part show minus figures and the little banks, relatively speaking, show plus figures, so that they not only are growing in size, but they are carrying this growth through to very splendid profits for themselves.

Q. You spoke of smaller banks looking forward to this merger. What actually happens here? What have you observed happens when two of the larger banks merge?

A. Well, we find a very much stepped-up campaign in all the various areas where we have our branches, particularly of other branches of other banks in those areas soliciting our customers, endeavoring to attract them their way. One of the favorite pleas is, "Now the other bank is so big, you won't be quite as important."

This, of course, isn't true, but it is a very good selling idea appealing to many people, and you find a great deal of scurrying around, when a merger occurs, to see how many dissatisfied people they can find, even though those people, in my opinoin, should not be dissatisfied.

Q. Are there any handicaps, so far as you know, to the growth of other banks, large or small, following the mergers [fol. 3368] that have taken place?

A. I have seen no handicap whatever by reason of a merger.

Q. Any diminution of competition as a result of mergers?

A. I would say that the competition seems to increase with mergers rather than to be diminished.

Q. On the subject of competition, will you turn to page 43 of the application.

A. Yes, I have that.

Q. On pages 43 to 51 are listed a number of banks in the Philadelphia area. Generally speaking, are you familiar with that list?

A. Yes, I am. I have reviewed it carefully.

Q. What is your opinion as to the competition, if any, furnished by these banks, either individually or collectively, with Girard?

A. I would say that all of these banks are in competition with us to one degree or another. I would say that any bank that is within commuting distance, a reasonable com-

muting distance, of any of our offices or of our community is definitely in competition with us. We in turn are in competition with them through advertising on radio, advertising in newspapers, offering special services, like tuition loans, ready credit, Charge-Write. We are bound to [fol. 3369] touch the customers and obtain customers of the banks included here, just as they will get customers of ours.

Some of the people who live in these communities, of course, work in Philadelphia. To that extent perhaps we can have them deal with some of our offices here in Philadelphia. Other people who are located in Philadelphia on an everyday basis working here may very well in turn have their account or their wife's account out in one of these banks because they happen to live in that community, so that any bank that is listed here, or, in fact, is within reasonable commuting distance of any other bank, is an actual and potential competitor, and, in fact, is a competitor to one degree or another.

[fol. 3370] Q. You are speaking about the individual depositor here more than the businessman or larger businesses?

A. I am not thinking particularly of the larger businessmen. I am thinking of the thousands of people whom they serve and whom we serve.

Of course, I might mention the trust situation here too. We are probably a reasonably strong competitor for most of the banks of any size on this list from the standpoint of our trust activities.

Q. I am sorry. Did you finish?

A. I was thinking of our trust activities, Mr. Price.

Q. Yes.

A. I would say that we are a competitor of any of these banks that engage in the trust business because of our wide-flung trust activities and our very special know-how in the administration of trusts. We are bound to be a competitor in that field as to any one of these banks that engages in trust business.

Q. Now, in general, what would you say the short-term effect on local banks would be if this merger took place, that is, the Girard-PNB merger?

A. I would say (and I regret to say this) I believe that

the short-term view is that our competitors will be very well sharpened in their activities, that is, their activities [fol. 3371] will be very well sharpened to obtain our business and there will be a great push, and I think a partially successful one, to obtain customers of our bank.

I had the president of Philadelphia's largest bank say to me that he is sorry to see this merger held up because he had his staff all geared up to grab a number of our accounts and they were losing some of their steam because they couldn't go ahead while it is held in suspension.

Q. What makes you think or makes him think that?

Mr. Reycraft: I object to what makes him think unless you are going to put him on as a witness.

Mr. Price: All right. He doesn't like the form of that question.

By Mr. Price:

Q. What makes you think that deposits would be lost?

A. Well, there are a number of reasons. Businesses want more than one bank. In a case where there is any account where the Philadelphia National and ourselves have an account, that is a sitting duck for competition. Every one of our competitors in town here will be after that account to see whether they don't want a second account.

Our correspondent bank activities will be particularly vulnerable here because our competitors will be making suggestions to those correspondent banks, "Well, maybe [fol. 3372] the two balances when put together are just a little too much to carry in one bank, and here is your big opportunity to open that account that you have been wanting to open with us for so long."

This really will be a field day for the competitive banks. I know ourselves, when we see mergers happen, we check every customer in sight that that other bank has and every means available to us (and we have some excellent means available) and we go out and solicit that business to see whether in some way or other we can't, at that point, move into the situation.

We have been successful in that regard and I am afraid that our competitors are going to be successful here. We

are going to have some pretty substantial inroads on some of our accounts.

Q. What would you say as to the long-term effect on other banks in Philadelphia of the proposed merger?

A. I think the long-term effect on the other banks will be good for them. I think that if we can bring more business to Philadelphia, if we can bring more deposits to Philadelphia, if we can make more loans to Philadelphia, through our business development activities, if we can get people to come and use Philadelphia, other banks will benefit.

If we, for instance, could get a business concern to come [fol. 3373] to the Philadelphia area, suppose they locate near Norristown; this would give a bank like the Montgomery County Bank and the Peoples Bank a great chance to get all sort of individual business from employees of the industry which we brought here.

Now while we would, perhaps, have the main account (and we certainly would hope that we would have) this gives other banks a chance to engage in business with people who are brought into their community for all sorts of services offered by banks.

Q. What would you think would be the long-term effect on customers of the merged bank?

A. I just can't help but feel that the customers of the merged bank would be benefited. We will be able, as a result of this large bank being put together, to engage to the fullest degree in the uses of automation. I think that will improve our efficiency and our ability to serve, it will help keep our costs down; so for the small depositor, we will be able to give him efficient service, perhaps more efficient than we are able to give now.

If we can increase our deposits, which I think we surely will, we will have more money to loan to small customers, as well as to large customers; so that this could be, in my opinion, a wonderful move as far as the customers of [fol. 3374] the bank are concerned.

Q. Do you make any distinction between the national customer of the bank, the large depositors, in contrast to the small depositors, between the large businessman and the small businessman?

A. In our treatment of depositors, we do not distinguish

one from the other. We give the same kind of services to a small depositor as we do to the large depositor.

Now it is true with a large depositor that he requires more services than the small depositor, but the service which we give is identical. We are just as interested in the small depositor as we are the large depositor.

In our loan policy, if anything, I would say we favor the small depositor against the large depositor and we do everything we possibly can to cultivate the depositors in our bank, and there is no differentiation made between one or the other, because we have long since learned that the small depositor sometimes becomes a very large depositor and a very influential person in a large company, or they become very important in their own right, or they inherit money from their relatives, or they make it themselves.

We have every reason to try to preserve the relationships that we can preserve with every living soul of business that we can do business with in our bank.

[fol. 3375] Q. In the banking business, do large banks do better advertising service for large customer and if not totally ignoring, at least downgrading, the smaller customer?

A. The large customer, of course, will be much better served by the larger bank, but people are not dealt with as to people. It is just a question of the kind of services they use and we try to make every service we have the best service, no matter what kind of a customer it is.

Q. Dr. Goodman, on page 1833 of the record, said:

> "With the disappearance of the one effective branch system and the effective large bank, I suggest that this materially affects his"—(and he is speaking of the small businessman, the small depositor)—"ability to get funds."

What have you to say about that? First, would you consider that the merger would result in the disappearance from Philadelphia of one effective branch system?

A. I certainly could not agree with that statement because when this merger is approved we intend to keep every one of our branches except the one next door to the other that has previously been mentioned; and we

shall do everything we can to serve the customers of the communities that those branches serve.

So that as far as the customer losing an alternative pos- [fol. 3376] sibility of dealing with a bank, I suppose that theoretically this is true, but the customers that we serve in these various communities are interested in the bank as a bank, and if we didn't have our name on the bank the people in the community would come because it is a bank.

We have no intention of closing the bank, any of the branch banks. They are producing much of the life blood of our business. We have established these branches at a great cost to ourselves and we are out there to serve customers who have moved into those communities and we are out there to get anybody else who is available for new business to increase the size and the effectiveness of our bank.

So that I just cannot see how any small business person or small personal account will see the slightest difference when they are dealing with the bank, with our branches in those areas.

Q. Now on the subject of small business Dr. Goodman also said this, and I shall read first from the bottom of page 1857 and the top of page 1858 of the record, first the question and then his answer:

> "Do times of tight money create greater difficulties for small businesses in small banks or in large banks with regard to their ability to get loans?
> "A. I would say that smaller banks are more receptive [fol. 3377] than are larger banks, all other things being equal."

Then on page 1920 he says this:

> "A. My statement would be that the amount of loans which small business was able to get was increased substantially less than the amount of loans which larger businesses were able to get, and that therefore it was my conclusion that there was discrimination in the ability of small business to get loans relative to large business to get loans in periods of tight credit relative to periods of credit ease."

What have you to say about that?

A. I think that those statements are absolutely without foundation. We could not be more conscious in our bank of the small businessman. We know what that means to our bank, not only in our relations with him, but we even know what that means politically; so that we are very conscious of not having the small businessman turned away.

In periods of tight money in our bank (and we have experienced such periods of tight money) our move is always to go to the larger customer and curtail his borrowing. Of course, larger customers are more flexible in their borrowing and it is easier to have them shift around.

For instance, we might have a loan to a large finance [fol. 3378] company. Let's say it would be $4 million that may be due in a couple of months. We have such fine relationships with that company we could say, "Well, couldn't you move that $4 million out to San Francisco or some other place and make some room for us?"

That kind of a customer can move around, the large customer, and does.

You can see what an impact it would be, as we have had this (and this is not just giving an illustration, it is actual cases) where we have had large finance companie move out substantial sums of money, that is, substantial amounts of borrowing out of our bank, into other banks and have made room for us to not cut down on the small borrower, for, after all, with a small borrower, let's say, borrowing $25,000 or $50,000, you can't make very much progress in cutting his line by 10 per cent. You could reduce his line by $2500 or $5000. This means nothing, so that you have got to make the cuts among the big customers to have the flexibility.

We have been successful in doing this. We might say to the little customer, as well as to the big customer, "If you have an expansion program in view, I wonder if you couldn't curtail that for a while. If you are thinking of acquiring another company, perhaps an activity like that should be postponed."

[fol. 3379] "If the transaction in which you are engaging is perhaps pure speculation or very close to it, perhaps you should not go forward with that." We say that both to small borrowers and large borrowers; but knowing what

small borrowers mean to us in the long run in our bank and that those small borrowers, some day, some of them, are going to be large borrowers, we couldn't be more attentive to the small businessman.

So that when Dr. Goodman says that small business suffers in tight money, well, he wasn't looking around Philadelphia when he said that.

Q. What effect on the business of the bank would you expect a program such as Dr. Goodman was talking about to have? In other words, pinching the small businessman and the small depositor in periods of tight money in favor of the larger businessman?

A. Oh, this would absolutely be ruinous to us, to find the small businessman talking about being pinched when we are favoring some larger borrower; and there is nothing worse in the banking business than being a fair-weather friend, and the main objective in our banking department activities is to never turn down a commercial loan that you can possibly make whether money is tight or easy because if you turn down a man when he needs a commercial loan you may never have the opportunity again after things straighten out of turning him down once [fol. 3380] again because you will lose him as a customer.

Q. Now, Mr. Brown, a good deal has been said in the course of this trial about service charges and I would like you to comment generally on service charges, and, if you will, you might go back to the pleasant days when demand depositors were paid by banks to deposit their money with them.

Tell us how that time has changed and the various developments which have led up to the service charges which are now fairly and quite common.

A. Yes. The service charges now, of course, are quite common, although in my early days with the bank, back in the twenties and the early thirties, we paid until we were barred from doing so interest on demand deposits.

In those days the corporate treasurer seemed to be much more satisfied to keep large balances in banks because we usually paid 2 per cent those days on balances, and I suppose he was largely satisfied because he couldn't do much else elsewhere. These were the days before the Treasury notes and certificates and the prevalence of other

possibilities of investment like commercial paper, so that——

Q. Did the Treasury issue the short-term bills then that it does now?

A. No, the Treasury did not. That didn't come along until later, so that avenue was not available to the de- [fol. 3381] positors of those early days.

We had in those days individuals keeping very large balances with us. Those individuals came to find other means of investment.

Q. When you say very large balances, could you give some indication of the size?

A. Well, some of our depositors would have $50,000, $100,000, $150,000, $200,000. These were individual deposits with us.

Of course, we didn't have many deposit accounts. I would say we probably had under 10,000 deposit accounts.

We had no really small deposit accounts at all; but suddenly we found, after the imposition of Regulation Q and when it was impossible to pay interest after, I think it was, 1933, that the corporate treasurer then was getting no return for his excess funds. Life was becoming much more complicated too for the corporate treasurer with the imposition of all sorts of regulations, governmental and otherwise, and he sought to place his funds where he could get real returns and we, as a wholesale bank, having only—well, we really had just blue chip or blue stocking accounts in our bank—found that the large depositor as an individual was starting to invest money in the stock market or other fields of investment, and we found that the corporate treasurer was now only keeping with the [fol. 3382] bank working balances, balances that we really earned.

Because we did not pay interest then and, as a matter of fact, it has only been very recently that interest has been paid on corporate time accounts, all this money that was with us and was so pleasant disappeared from the banks and we saw that unless we went out and dealt with the public at large, with the economy changing as it had, with the people now being able to have bank accounts, people no longer keeping money in sugar bowls, that they would have to deal with a broad group of depositors.

We would have a depositor that perhaps had a balance with us of $10 million and we rather hesitated to go out and perhaps seek depositors who would have as much as $10 million with our bank, by getting them on a volume basis; but we felt that unless we grew with the economy, that unless we offered banking service to the public at large, we were just going to dry up as a bank. This was true of all banks throughout the country, as we made very careful studies of it.

So that where we first came into the service-charge field is when we offered special checking accounts. Special checking accounts reach the public at large and give the man on the street a bank account that no one was interested in having before. This was a great boom to him.

As I said perhaps yesterday, the average special checking account has in it about $200. If we allow a rate of return on that $200 that we can earn, at let's say, well, for ease of calculation, 2 per cent, that is $4 a year.

[fol. 3383]

If we allow a depositor, as we do, to make deposits at will during each month and to draw checks (and interestingly enough we find that the average special checking customer draws a hundred checks a year) we charge him on a volume basis 8 cents a check, so that his costs are 8 cents a check for a hundred checks, or $8; and for a maintenance charge we charge 50 cents a month and that is $6.

$8 and $6 is $14, and including the $4 we earn on his account, we realize $18 a year with that account. That is $1.50 a month for handling his account and this means bookkeeping, giving him checks on which he has his name, handling all the mishaps that may happen with those accounts, because in carrying on banking business you are always subject to losses of some kind of another; and also there is great expense in the turnover in these accounts.

We will have as many as 12,000 to 15,000 people a year open special checking accounts and we will have that many close special checking accounts, so that this makes it a very expensive process; but not so expensive that we do not want to do it because, with the realization of $18 a year per account, we can make enough to cover our costs;

[fol. 3384]

we can provide service, as we do in this case, to about 65,000 depositors, and for what we believe is a

minimum cost to the public, which is sometimes referred to as a service charge in this case, we are able to bring banking facilities and the availability of every service we have in our bank to that special checking account customer.

So I don't think that anyone could get service possibly any cheaper than that.

Q. Have you made any survey to determine what it does cost the bank per account of that nature?

A. Yes, we have. Actually, we are just lucky to break even. Even though we take in perhaps $1 million a year for that kind of service, we are just likely to break even. We might have $5000 or $10,000 left over.

The big thing to us, of course, is that by serving these people we have an opportunity of offering them safe deposit facilities, consumer loans, trusts—as they have accumulated money, trust services—and, as I indicated before, the special checking depositor sometimes becomes a very important depositor.

We even find in special checking account, as a matter of interest, that sometimes somebody gets $30,000 or $40,000 in one of those accounts and, of course, we try to make new arrangements with him, but we find that they like the way [fol. 3385] the thing operates, so they like to keep just what they have. However, in those cases we do adjust the cost.

Then there are other charge account or service charge services, where we make special charges, and this has to do with the payment of payrolls, that is, the arranging of payrolls; it has to do with handling coin, currency.

We also have accounts that may carry as much as a million dollars with us that we service-charge because their customers are perhaps thousands and thousands of people and service charges only arise out of the number of items that you handle. It is keyed to the amount of your business, so even a million dollar depositor is service-charged if he has special services rendered to him.

Q. Such as what? Give us one illustration of the money handling, the coins, and so on.

A. Well, you take a customer who is in the supermarket business, a customer who is in the milk business, serving thousands of householders; and when they pay by check

the check-handling costs are just enormous. In those cases we have to charge a service charge and the customer, even though he has a million dollars on deposit with us, prefers, rather than to carry more, to just pay us for our work.

That is one of the reasons that we have to have a service charge schedule which is acceptable to large depositors as [fol. 3386] well as small ones.

I might also say that many people open regular checking accounts that ought to have special checking accounts. In those cases, it is a little more expensive to get banking service in that fashion and we try to encourage those people to move over into special checking accounts. Where we do not, we have a schedule for those for small regular checking accounts.

As far as competition, about which you were talking, affects this, there is no competition on the part of anybody who is trying to get an account because you have a service charge. I mean we or no other bank would try to obtain an account on the theory that we can get a service charge for handling the account.

[fol. 3387] Q. Have you had any general survey to determine the basis on which you establish these service charges?

A. Yes, we have. We are always studying the cost to us of handling the items of deposit, the check handling, the collections, the cost of our tellers, the cost of the services of handling over the counter all these transactions, and we find that in every instance—oh, there might be a bare exception—our service charges are not enough to cover the costs of doing business where a service charge has to be imposed.

Q. Would the merged bank have any power to change service charges, either increase them or decrease them, of any other bank after the merger?

A. I didn't quite get that question.

Q. Could the merged bank or anything that it might do affect service charges imposed by other banks on their customers?

A. I am sure that we could have no effect whatever on other banks as to their service charges.

Q. How many deposit accounts has the Girard now? You

said some years ago it had about 70,000, and did you mention some 60,000 of these special accounts?

A. We have about 72,000 regular checking accounts, of which about 13,000 are commercial or business accounts. [fol. 3388] We have about 65,000 special checking accounts, and we have about 120,000 savings fund accounts.

(Document headed "Excess of Average Deposits over Average Loans of Girard Trust Customers with 27 Largest Lines of Credit" was marked Exhibit D-40 for identification.)

Q. I show you a paper marked Exhibit D-40, Mr. Brown, and ask you what that is.

A. This is a statement which shows the excess of average deposits over average loans of Girard Trust customers with the 27 largest lines of credit.

Q. And the number 27 was selected because the Philadelphia National Bank had 27 in its largest category?

A. Yes, we made this up as a somewhat comparable statement.

Q. The maximum line of which the Girard is capable was $6 million?

A. $6 million is our lending limit.

Q. And if I recall correctly, the Philadelphia National Bank exhibit has only the maximum lines?

A. Yes, of $8 million. They had 27 with $8 million.

Q. But since there were 27 of those, you picked out the first 27, the largest 27, in the Girard's list for purposes [fol. 3389] of comparison?

A. That is correct.

Q. That is how you arrived at the number 27, is it not?

A. That is so.

Q. Have you any general observation you would like to make about this exhibit?

A. I think this exhibit shows rather clearly that the larger depositors of the bank, who have the largest amount of lines, produce deposits with the bank which in the overall provide sums of money over and above the loans which they may have currently outstanding to make available to other customers. This particular list shows that as of the average for 1960 the deposits of these customers

as a percentage of their loans was 159.3 per cent, or, in other words, with average deposits of $41,800,000 from these large customers we had $26 million in average loans, so there was $15,500,000 to loan to other customers of the bank.

Q. Will you refer to the item marked E, and without referring to the customer by name, have you any comment that you would like to make about that?

A. I would like to say, as to customer E, that we do make a loan to a rental company here that leases auto-
[fol. 3390] mobiles in a rather large number to this corporation, so that we would have perhaps a couple of million dollars in loans outstanding to the rental company. The rental company, indeed, would have large balances with us also, but it might be said that there is some relationship to item E, where it says "None" to the fact that we are financing cars which this particular customer is using.

Q. But the loan is made to the company that supplies the automobiles, is it not?

A. Oh, yes, it is. This company has no actual liability for the loan at all.

Q. Now, as to item Q, customer Q, have you any comment about customer Q?

A. As to customer Q, that customer operates a supermarket business, and we have no loans outstanding to that customer, although we do have under this line of credit, we do allow loans to be made by others with the security of the lease of this customer, so that it might be said that indirectly the loan that we have made would be tied into our customer, although our customer has no liability whatever for paying the loan itself and is not a party to the loan agreement.

[fol. 3391] Q. And as to customer R?

A. As to customer R, in that situation we loan money to mortgage brokers that are accumulating them for customer R in a mortgage pool, and it therefore may be said that indirectly we are extending some benefits and advantages to customer R, and they might be said to be in the nature of an indirect accommodation.

Q. But there is no direct loan to customer R?

A. There is no direct loan to customer R. As a matter of fact, customer R cannot borrow any money.

Q. Referring once more to customer E, this leasing arrangement you speak of between the owner of the automobiles leasing them for the customer, the customer had a deposit with the bank long before this leasing arrangement was established, did it not?

A. Oh, yes. As a matter of fact, we have a number of accounts with this customer of a very substantial nature.

Q. And similarly with customer R, that customer had a deposit long before this other mortgage pooling arrangement that you referred to came into existence?

A. They are among our very oldest customers in the bank, long before we ever thought about a mortgage pool. [fol. 3392] Mr. Brown, would you care to comment generally on the effect that you think this proposed merger would have on the public at large?

The Court: That is going to be pretty broad. Let us take our ten-minute recess.

(A 10-minute recess was taken at 11:00 o'clock A. M.)

(The last question was read.)

A. I think, Mr. Price, I have pretty well covered what I might say in response to that question. Just to briefly summarize, I certainly will say that I think that everyone will be benefited from this merger, both the small depositor, and particularly the large company whose business we can handle to better advantage. As I pointed out yesterday, I think the assistance that we can give growing companies is terribly important. With greater resources we would be able to help growing companies to a greater extent than we have in the past, and I think the help that we can give to the big companies in keeping business here in the city will not only accrue to our bank and to our shareholders' benefit but will accrue to the banks and the community at large.

Q. I think in your statement a few moments ago you [fol. 3393] referred only to the small depositor. You didn't mean to exclude the small borrower from that, did you?

A. Goodness, no. If I inadvertently did that, I was cer-

tainly thinking very much about the small borrower and the advantages that he will have. Especially that small borrower will have advantages because as a result of these efforts that we are going to make to bring more money into this area, this is going to give the small borrower a greater amount of money with which to be accommodated.

Q. What would you say would be the effect of this merger, if accomplished, on existing and potential competition generally in commercial banking in the Philadelphia area?

A. I think that as far as this merger is concerned, on the matter of competition, it will quicken it and strengthen it. We will find our competitors working harder, finding more ways to serve people than they are now, and I just cannot believe that we will have anything but a very strong competitive activity on the part of our competitors.

Q. Would you expect it to be lessened in any degree?

A. Goodness knows our competitors will be trying to take our ears off.

[fol. 3394] Q. Would you consider it likely, with your experience in Philadelphia, that the proposed merger would unreasonably increase banking concentration or concentration in commercial banking in the Philadelphia area?

A. I certainly do not believe that concentration in banking in Philadelphia will be affected in any adverse way if this merger is approved.

Q. What can you say about the effect, if any, of the merger on existing and potential competition in the commerce and industry served by the commercial banks in the Philadelphia area?

A. I just can't see how the merger can even slightly affect the commerce and industry in Philadelphia. As I understand, what that statement says is that we are going to affect people in business adversely by having more facilities available to them, and I just don't understand, really, what the question is intending to prove or what the statement is intending to prove, but we cannot affect any business in any way in Philadelphia. All we can hope is that we can get them to think kindly of us.

Q. What effect would you expect the merger to have on the ability of prospective borrowers having their bor-

[fol. 3395] rowing needs adequately supplied? Would that affect it adversely in any way?

A. It certainly would not affect it adversely in any way. As far as the new bank is concerned, I can't imagine that we wouldn't want to make every loan that it was possible for us to make, but if the borrower had to seek alternatives, there certainly are plenty of them to be had.

Q. What effect would you expect the merged bank to have on the ability of other banks to perform their banking services?

A. It will not have the slightest effect on other banks. Other banks will not be affected in any way as to performing their services by a merger of our bank.

Q. In your observation, has there been any evidence of any restraints or restrictions upon other banks or customers of other banks resulting from past mergers in Philadelphia?

A. Not the slightest that I have ever seen or ever heard of.

Q. Mr. Brown, I don't think anyone has said and I don't recall any exhibit which indicates whether or not the proposed merger was approved by the stockholders of the Girard.

[fol. 3396] A. Yes, the merger was approved by the stockholders of the Girard. They were most enthusiastic about it. As a matter of interest, we had more stockholders vote this time than ever voted at any election and more votes cast for the support of management in this activity than any vote ever cast in the bank for anything. The figures were well up around 95 per cent.

Q. Do you recall when that meeting took place?

A. I think that meeting took place in May. I think it probably was about the 9th of May.

Q. Do you recall when Dr. Harris was testifying he said that he thought the Girard had been before the Banking Board on at least one occasion, and then later by letter he expressed some doubt as to the accuracy of that statement, but he didn't have time to verify his records before he left for Europe. What can you say about that?

A. I think that second thought was a good one. The Girard has never been before the Banking Board. We have had no occasion to be there, because the only thing

that would take us before the Banking Board would be the establishment of a de novo branch over the county line, and we have established no such branches during our branch activities.

[fol. 3397] Mr. Price: Cross-examine.

Mr. Reycraft: Before we proceed with the cross-examination, I would like to hand Your Honor a memorandum relating to the deposition of Mr. Brown, which we discussed earlier.

I may say that at the time the deposition was offered in evidence the Court gave the Government permission to file a memorandum on the question, and that is the memorandum which has been filed.

Cross-examination.

By Mr. O'Donnell:

Q. Mr. Brown, you discussed regulations governing investments by the bank.

A. Yes.

Q. Do you have D-33 with you, the annual report?

A. No, I do not have that.

(Exhibit D-33 handed to the witness.)

Q. Turn to pages 30 and 31.

A. 30 and 31, yes.

Q. These are bank-owned securities. Will you look at the last item on page 31.

A. Yes.

Q. Pennsylvania Railroad Company, 6000 shares.

A. Yes, that appears there.

[fol. 3398] Q. Will you tell us how that came into your possession?

A. I might say we unfortunately bought this stock many years ago at $50 a share, and it is now selling around 13 or 14, as you know. The bank examiners have just come in, and we have written the stock down on our books by a quarter of a million dollars, and it is what is known as a non-conforming investment, something that the Federal Reserve and the state bank examiners are hammering at us all the time to dispose of one way or another.

We had a number of other shares that we acquired when we had the right to acquire shares, and we have given those all away, but we have not seen fit yet—given them away, I have indicated, to our foundation—we have not seen fit to dispose of the railroad stock as yet.

Q. Mr. Brown, your bank under its time deposits has what type of accounts, savings accounts?

A. Under time deposits?

Q. Yes.

A. Under time deposits we would have savings fund deposits, we would have certificates of deposit in the form of a certificate, we would have time deposits in the form [fol. 3399] of a letter of agreement indicating the terms under which we held the time deposit, and in order to compete with New York we have just established a new form of time account certificate which is possible to trade in the open market, so that we do now have time certificates, trying to meet this very aggressive competition in New York who have dreamed up a new idea of developing time money in the banking system.

Q. So that when you say savings fund accounts, is that individual accounts, or does that include——

A. Saving funds accounts are largely individual accounts. Corporations are not permitted to have saving fund accounts, except I believe certain charitable and nonprofit corporations may, and I think there is a special exception, too, for I believe school boards. They might have saving fund accounts.

Q. Do you have Exhibit D-34 before you?

A. Yes, I have D-34.

Q. The first line on that exhibit, Girard Trust Corn Exchange Bank, indicates that on 12/31/56 your savings fund deposits were $70,824,000.

A. Yes.

Q. In the last column you have $109,500,000.

A. That is correct.

[fol. 3400] Q. Approximately an increase of just under $39 million?

A. Yes.

Q. Will you turn to page 10 on Exhibit D-33, your annual report.

A. Yes.

Q. The second paragraph, the second sentence, says, ". . . in the past five years our savings deposits have grown by $41.6 million."

Can you account for the difference?

A. This is a statement, "Competition for such business is severe; nevertheless in the past five years our savings deposits have grown by $41.6 million."

And then the other sheet that you referred to showed a growth of what?

Q. Just under $39 million.

A. Under $39 million? This is a difference of $2 million?

Q. Yes, sir.

A. I am unable to account for that differential. I can undoubtedly provide that answer for you after lunch, if that is of importance.

Mr. Price: May I suggest that D-34 covers four years and not five?

[fol. 3401] Mr. O'Donnell: Yes, you may.

Mr. Price: Does that make your question a little bit deceptive?

Mr. O'Donnell: That indicates that the title of the chart is not accurate.

Mr. Price: There is nothing wrong with the title. That is talking about dates, not amounts.

The Witness: The title of the exhibit says "Five-Year Survey of Savings Fund Interest Rates." The dollars might just as well have been left off the report.

By Mr. O'Donnell:

Q. Mr. Brown, I show you the Report of Condition of Girard Trust Corn Exchange Bank at the close of business on December 31, 1956, and I call your attention to the item "Time Deposits," which shows a total of $67,536,000, which is less than the $70 million shown in Exhibit D-34 and ask you if you could secure an explanation of that.

A. I certainly could secure an explanation of it. It is probably due to the fact that when we state a report of condition for the Federal Reserve authorities and for the state banking authorities, we have to shift our balance

[fol. 3402] sheet around, and items appearing in one year in our annual report would appear in an entirely different way in this report, but I can easily obtain that for you.

Q. Thank you.

A. Is counsel making a note of what I am to obtain?

Q. Mr. Brown, you had said in your direct testimony that you estimated that foreign money in this country for short-term investment was 7 or 8 billion dollars.

A. Yes, I did. I might say, Mr. O'Donnell, that after making that statement I looked up the figures when I went back to the office, and I found out that I was referring to the 1958 figures, that instead of being 7 to 8 billion dollars, it is presently in the order of $21 billion. In 1958 there was $2,100,000,000 in time deposits of foreigners in our banks in the United States. There was some $8 billion of other money of central banks, and there was a total—the differential was made up of other deposits, demand deposits, of foreigners, and that total was $13 billion, but I believe the total now is $21 billion of assets in this country. This whetted my appetite a little bit. This will be that much more money we probably can lay our hands on to increase our deposits.

[fol. 3403] Q. You were speaking, Mr. n, of what you termed hot money. Do you include th ls of foreign banks in that category?

A. Not the demand deposit funds. The demand deposit funds of foreign banks are very stable, because they are carrying on transactions here in this country all the time, and there is really great stability in foreign bank deposits. It is the foreign time deposit which is so volatile and which seeks any market it can find wherever it can be best accommodated at the most favorable rate.

[fol. 3404] Q. Mr. Brown, you said that the interest rate on commercial paper is hinged to the rate the savings bring?

A. I don't think I said that, Mr. O'Donnell. If I did, I didn't mean to s that.

The commercial paper market, as perhaps you noticed in the newspaper yesterday, is hinged mostly to the Treasury bill market. All the commercial finance companies yesterday or the day before reduced their rates an eighth of one per cent, and this is because the Treasury bill market has

really been going down rather sharply on a relative basis, and they are bringing this in line with the Treasury bill market.

Now this has a direct effect on our savings, our time deposits of corporations, because a corporation must keep money with us at least 180 days or more to get 3 per cent. We can only pay 2½ for the period of 90 to 180.

So that your competition therefore would be Treasury bills, commercial paper, and time deposits at 2½ per cent rate, all in a very close relationship to each other, and I think the commercial paper people look at time savings rates given by banks, but they are not influenced by the United States Treasury bill market.

Q. Mr. Brown, you spoke of the Federal Reserve regulations requiring you to carry 16½ per cent of your demand [fol. 3405] deposits as a reserve?

A. Yes.

Q. Has that rate fluctuated in recent years?

A. Yes, it has. The movement has been downward.

You see, the rate in the central reserve cities up until recent times has been higher than in the reserve cities. Philadelphia is not a central reserve city, it is a reserve city, and I can remember back that it was not too long ago that that reserve was, let's say, 17½ per cent; perhaps maybe back a year or two before that it might even have been slightly higher than that, but the trend has been downward because the Federal Reserve authorities and the Treasury and the Government have been trying to pump more money into the commercial banking system in order to make more money for business to borrow.

Q. And this has had the effect of freeing some of your reserves?

A. Oh, yes. Any time that the Federal Reserve's reserves against demand deposits is reduced, this give us more money to loan to our borrowers.

Q. Mr. Brown, at page 2614 of the transcript you said:

> "... you don't find many banks loaning more than 60 per cent of the deposits in the form of loans or investing in other types of securities ..."

[fol. 3406] A. If I said that——

Q. Let me ask you—go ahead.

A. If I said that, that statement is not correct. It is correct to the extent that you do not find many commercial banks loaning more than 60 per cent in the form of loans, but this would have no relation to what they would invest in securities.

Usually the ratio, Mr. O'Donnell, would be something on the order of 60 per cent in loans, about 25 per cent or thereabouts in securities, with the difference tied up in reserves, cash in banks, unusable funds, something of that nature, and also in fixed assets.

Q. Could you tell me what the ratio was of your loans to deposits as of, say, June 30, 1961?

A. June 30 of 1961? I don't know this offhand, but our ratio was probably higher than 60 per cent.

We had a pretty stiff loan push in our bank during these last few months. We have been somewhat contrary to the situation, particularly in Philadelphia, to the balance of the country.

We have some unusual loans on our books. We have gotten some investments and foreign acceptances which have caused us to have a larger loan ratio than 60 per cent and we are a little uncomfortable about it, but we believe [fol. 3407] that the nature of the loans, being some of them very short term, and some quite large and to be paid off quite soon, that we have not a dangerous situation at all or an unfortunate one as far as our bank is concerned because we have about a $50 million secondary reserve and this, of course, gives us a great cushion and we are, therefore, able to make more loans than we otherwise would.

Q. Mr. Brown, speaking of the Federal Reserve stock that your bank is required to hold, you say that this stock paid 6 per cent in dividends?

A. Yes, it does.

Q. But that there is no freedom of action as to whether you like that 6 per cent or not; there was a suggestion that a 6 per cent return was not a good rate.

A. I am not suggesting that 6 per cent is not a good rate. What I had in mind more in making that statement, Mr. O'Donnell, is that we have $1,800,000 invested in Federal Reserve stock and that's just $1,800,000 that we can't loan to you or to me or to someone else in the carrying on of our business.

So we would much prefer to have the 6 per cent coming out of something that revolves, something which produces money that we can loan to customers.

Q. Speaking of your branch system and moving into the adjoining counties, Mr. Brown, you said that the local banks [fol. 3408] in the area where you plan to move had an opportunity to pre-empt the site.

A. Yes.

Q. Has any bank pre-empted a site that you may have selected?

A. Not pre-empted any of ours because we have not attempted to do this, but there has been pre-emption on the part of other bank locations by other unit banks of sites under these regulations.

Q. Mr. Brown, would you say that when you make a loan, a large loan, the borrower has or places a deposit in your bank?

A. Well, he has already had one there if we are making a large loan. It very seldom occurs that we make a large loan simultaneous with the deposit; we have the deposit ahead of time.

Q. Is he free to withdraw that deposit while the loan is outstanding?

A. Yes, he is. We won't think very well of him, but he is entirely free to take it out.

Q. Mr. Brown, do you have Exhibit G-69 there?

A. I don't believe I do have it, do I?

I have that, Mr. O'Donnell.

Q. Will you turn to page 2——

The Court: Will you hold it, please, until I get it.

[fol. 3409] I have it.

By Mr. O'Donnell:

Q. The fourth company on that list, you said the parent company was a good customer of your bank?

A. Yes, that is correct.

Q. Where is that parent company located?

A. It's located up in North Philadelphia. Of course, I perhaps should also say that the parent company has a number of operations——

Q. In the Philadelphia area?

A. —in the Philadelphia area, in the Reading area, in the Covington, Kentucky, area, and so forth.

Q. Had one bank previously handled this company's business?

A. Do you mean handled——

Q. The parent company's business.

A. —the parent company's business?

I don't know whether that is so or not, but it could be. This company grew very largely, I think, when we were the principal bank there. We had one of our vice presidents on the board and I would suspect that maybe in its early years——

This company has had fabulous growth. They have outgrown us, but we may have been a principal bank at one time.

[fol. 3410] Q. Now the last company on that page——

A. Yes?

Q. —was that a large amount for this company to borrow?

A. A large amount for the company to borrow?

Q. Yes.

A. Yes, that's a pretty sizable amount for this company to borrow. They have limited investment capital in this company.

Q. This was a prior account of your bank; you had been doing business with them before?

A. We have had a relationship for some years. We were in the credit long before the Bank of Long Island was, although we had nothing to do with bringing in the Bank of Long Island.

Q. Does any other Philadelphia bank handle any of their financing, do you know?

A. I should doubt very much if any other bank would. I think that we probably have loaned to them about as much loan money as they could borrow from anybody, along with this Long Island bank; and I doubt if anyone else has it.

Q. On page 3, the borrower from Lancaster, the last one on that page,——

A. Oh, yes.

Q. —did you get a deposit from that borrower?

A. No, we did not get a deposit from that borrower. We got the deposit from the Lancaster County Bank.

[fol. 3411] Q. You had previously a deposit from the Lancaster County Bank?

A. Oh, yes. This is one of those situations. You see, this results from two reasons.

We have quite a lot of experience as a food bank, as I think I mentioned yesterday, and this company being a packing company was attracted, together with their knowledge of their own bank, that we knew this game pretty well, and between the combination of our knowing the game and the Lancaster bank having the deposit, this supported the loan as far as we were concerned.

They don't support any other loans like this. If they did, we would have much more in the way of deposits.

Q. On page 4, the first company?

A. Yes.

Q. Can you tell me what type of loan that was?

A. Yes. That was a type of loan that involves the financing of their customers' accounts receivable. Department stores have, particularly in recent years, been extending more and more credit to people on time purchases and they have had to turn to their banks to help them carry some of their accounts receivable, really; and this is part of carrying the accounts receivable for this large department store chain.

Q. Have you done any lending of that type prior to this?

[fol. 3412] A. Yes, we have. We have done this for a large Midwestern mail order house. We did have at one time this type of loan for them, but this is not our usual type of lending, although you never know, if you have a good department store account, they are likely to ask you at any time to help them carry their accounts receivable.

Q. Do you know whether the other Philadelphia banks indicated there do this type of lending?

A. Yes, they do. Both the Philadelphia National and The First Pennsylvania Company do this type of lending.

Q. On the last page, Mr. Brown, you said that the first company there had part of its operations formerly——

A. In Philadelphia?

Q. —in Philadelphia?

A. Yes, it did, way back.

Q. They no longer have any manufacturing operations here; is that right?

A. I do not think that they do.

Q. Yet you have managed to hold on to this business?

A. Yes. We have managed to hold on to the business.

Q. You have shared this on a 50-50 basis with the New York banks?

A. Yes, we have.

Q. Would you expect that ratio to change after the [fol. 3413] merger, if it were consummated?

A. No, I wouldn't expect it to change. We have always been very good friends of this company and our associations go back a great many years, even with the owners of the company before the present owners of the company.

So that I would not think that they would move the business out of Philadelphia. I really think we are quite fortunate in maintaining the account here, as a matter of fact.

Q. Will you please turn to page 4, Mr. Brown.

A. Yes.

Q. I will ask about the last company shown on that page.

A. Yes.

Q. You said it was a hard job arranging this loan, did you not?

A. It certainly was.

Q. Did the company arrange for all of these banks to put up their shares by itself?

A. I don't know whether the company did all of it or not. I can say this—I know the company arranged it with us.

They employed as a financial vice president of their company just before—this company has just recently gone public. They employed this financial vice president. He was a former vice president of the Montgomery County Bank and Trust Company, and I would say that he prob- [fol. 3414] ably, knowing the game so well, went around and made the arrangements for the lines.

Whether the Chase Bank in New York and the Fidelity here in town tried to help out, I don't really know; but this had nothing to do with our arrangements.

Q. They had previously borrowed from you?

A. Oh, we were one of the main banks here. We brought this company from a very small company to a very large company, and then they decided that they needed so much credit.

This company is just a devourer of credit and we had gotten about to our limit. We were up to about $4 million with them and we thought that was as far as we could safely go.

This illustrates the situation that I was talking about yesterday, that a company gets up to a limit with the bank and must find some way of securing it and this is the way they found of curing their inability to borrow $20 million from us.

Q. Mr. Brown, you were speaking of correspondent bank relations. Do you know whether any of our correspondent banks has ever had any trouble with its borrowers because that bank shared the loan with you?

The Court: Read that question back.

(The reporter read the pending question.)

The Witness: I do not believe so, Mr. O'Donnell. [fol. 3415] This, of course, would not naturally follow anyway. Any borrower who goes into a small bank and knows that he cannot borrow any more than a certain small lending limit knows the bank has got to go some other place, so that they certainly wouldn't be bothered about their going some other place because this is the only way it could be done.

By Mr. O'Donnell:

Q. Yesterday, I believe, Mr. Brown, you said that you don't carry any excess cash in other banks, that you keep your——

A. We watch it like a hawk. We don't let an extra dollar stand in any other bank.

Q. Well, is this the same thing as the corporate treasurers do with the money in your bank and in other banks?

A. Well, when it comes to watching your cash and using your cash as hard as you can, I think that this is probably something along that same line.

Every day we change our balances in these banks so that they don't get an extra dollar and so that we will have the dollars to loan to our customers and engage in the purchase of securities.

Q. Turning to your branches, Mr. Brown, Mr. Beadle said, as I recall, that for most of the branches the area from which the branches draw business is a radius of about a mile.

A. I think Mr. Beadle did say that about city branches, [fol. 3416] within the city, that branches draw business within about a one-mile radius.

But I think he very clearly stated that out in the country or out in the suburbs, the more rural areas, a two-mile radius was about the radius from which they draw business.

Q. Would the Wynnewood branch be a city branch or a suburban or country branch?

A. Well, the Wynnewood branch is just about out of the city. I would say that the Wynnewood branch would be more nearly like a city branch than it would be a country branch.

Q. How about the Ferne Boulevard branch?

A. The what?

Q. Ferne Boulevard.

A. Oh, that's the branch out in Drexel Hill?

That branch—well, that would be more likely to draw from a larger area, I would say.

Q. Mr. Brown, yesterday you said, speaking of the merger, at page 2714 of the transcript,

> "Also, I felt that if we could, by reason of a better prestige and a better stature position as far as our size, we could attract business to the community, we could keep business from leaving this community . . ."

Have any businesses left the community because of the stature or the size of your bank?

[fol. 3417] A. Well, that isn't stated too clearly, if that is the way I said it.

I meant banking business going from the community. I wasn't thinking of a business leaving the community. I was thinking about the business that is now going to New York from our present people here in Philadelphia, that

we might have a chance of stopping some of the flow of that to New York if we had a bigger bank with more prestige and more stature. That is what I intended to say.'

Q. Mr. Brown, you also said that your solicitors have called on companies and have been told, "When you are a bigger bank, come around again."

Can you name a company who has said that?

A. I think perhaps I can.

I don't know that I can be specific about that. I hear my men in the out-of-town department particularly, who cover the businesses outside of the county, reporting at loan meetings and reporting at business development meetings, well, so-and-so told me that if you were a little bigger bank we would do our business with you.

I can remember one very well. Up in Allentown there is a large cement company there and they said to us, "When you are a bigger bank, we will be sure to do business with you. We are doing it now in New York; we would like to divert more business to you."

[fol. 3418] Then also there is another customer in Allentown; the president told me that he would love to do more business in Philadelphia and that he thought that this merger was a fine thing and that he would rather turn his business to Pennsylvania than he would to New York; and this customer, just perchance, was located also in Allentown.

Q. Is that the customer whose deposition was taken the other day?

A. No, no. Incidentally, the customer whose deposition was taken the other day is a very good customer of ours.

As I say, our men are constantly telling us—they tell us when we are a bigger bank we will be doing more business with you.

This is common comment.

Q. Do you know this of your own knowledge? Have any of these officers of companies told you directly?

A. Yes, the president of the——

Q. Cement company?

A. No, not the president of the cement company. The president of the cement company told our Senior Vice President, George Clark, that they certainly wanted to open up in Philadelphia.

The president of the other company told me in my office that he thought this was a great thing, would be willing [fol. 3419] to come here and say so, if we would just move the court; and that he would like very much to open with our bank.

Q. In what business is this company?

A. They deal in gases.

Q. How large are they?

A. A very substantial company.

Q. How large would their borrowings be?

A. Oh, I would think their borrowings would be—he wrote me about it later, as a matter of fact, and said that he had told me that they had been borrowing something in the area of around $20 million or $24 million, but that he was mistaken about that. He had looked at his records and he said he was borrowing around $18 million or something of the kind.

Q. From more than one bank?

A. No, he has been borrowing mostly in New York.

Q. From one bank in New York?

A. Yes, yes.

Q. Speaking of the officers of the New York banks who are in Philadelphia on a Monday-to-Friday basis, you didn't intend to include the presidents of Morgan Guaranty and the Chase Manhattan?

A. Oh, no. They just used the presidents to put on these special shows.

For instance, when the Chase Manhattan Bank would [fol. 3420] bring John J. McCloy, who is the adviser to President Kennedy on Disarmament, here, this would be a special event and it only lasted two or three days.

Naturally, he is not coming here every week, nor is David Rockefeller, but Rockefeller may come here for a week.

Q. Have you done this for any of your customers?

A. Visited other places? Well, we visit. We do visit but, of course, it has been a very modest and in a sporadic way.

I might say to you, Mr. O'Donnell, that I know more men from the New York banks soliciting business in Philadelphia than I know of all men in Philadelphia banks soliciting business in Philadelphia, in the banks themselves, and I know most of them.

Q. Do you have Exhibit D-38 before you, Mr. Brown?

A. Yes. I have that, Mr. O'Donnell.

Q. Are there any services listed on this exhibit, Mr. Brown, which are unique to the Girard?

A. (No response.)

Q. That are not offered by other banks, say, of your size.

A. Well, there is one other bank that has "Charge-Rite," so that is somewhat unique.

We think the service we provide to trust customers and prospective trust customers is somewhat unique. We think [fol. 3421] we are pretty sophisticated in that field.

We have the tuition loan plan that beats anything that any of our competitors have.

Our ready credit service is different too. We make you a loan by allowing you to make a deposit, where other banks do this same thing by having you draw a check.

I would say that for the most part, Mr. O'Donnell, most of the banks in Philadelphia of any size are providing this service or something which is closely approximating it.

Q. Does Philadelphia National Bank provide these services?

A. Well, you see, the Philadelphia National Bank made a very late start in the trust field and I would suspect that there are many services here in the Trust Department that the Girard is serving that the Philadelphia National Bank is not.

They just haven't had time to get around to it. This all takes a great deal of time. We have been at this trust business since 1836; they have been at the business since about 1951 or something like that.

Q. But they are potential competitors of yours in these additional trust services?

A. Potential competitors of ours?

Q. Yes.

A. Yes, I would say so.

Q. And they are active competitors in the services which [fol. 3422] they do render?

A. Yes, the Philadelphia National Bank is an active competitor.

Q. Do you have Exhibit D-30?

A. Yes. I have that.

Q. On page 1, under the first category, Savings Deposits, Individuals, under $10,000 each——

A. Yes.

Q. —in the last column over there headed "Percent Outside 4-County Area," under Girard it shows 2.6 per cent. Could you tell me what per cent would fall within the four-county area?

A. Your question is if 2.6 per cent of accounts under $10,000 of savings deposits would be outside of the four-county area, how much of a per cent would be inside the four-county area?

Q. That's right.

A. Is that your question?

Q. Yes.

A. Well, I would think it would be approximately the difference betwen that and a hundred per cent, although——

Q. That would be 97.4 per cent?

A. Yes, but, you see, with 120,000 accounts they might come from anywhere from 20 miles around here, which would be just very hard to identify.

[fol. 3423] I would say this—that most savings deposits that we have would come from this area.

Q. The exhibit indicates they are within and without the four-county area.

A. Does it also show? Oh, yes, outside the four-county area.

Well, I would think that the very large proportion of our savings deposits under $10,000 would be in our branch system and in our main office.

Q. The second category, which is Savings Deposits, Individuals, $10,000 Each and Over, you have 100 per cent from within the four-county area; is that right?

A. I think that would be approximately correct.

The Court: What was that question? Read it back; read the question and the answer.

(The reporter read the testimony as directed.)

The Court: All right.

By Mr. O'Donnell:

Q. In Category 2, Time Deposits, Partnerships and Corporations, Under $10,000 Each, the exhibit indicates that 100 per cent of the accounts in that category would fall within the four-county area. Do you agree?

A. Yes. I think that would be approximately correct.

Q. And the second section of that category, $10,000 and over, 79.5 per cent would come from within the four-county area?

[fol. 3424] A. I would think that would probably be approximately correct.

Q. Skipping down to the bottom of the table, total time and savings deposits, 94 per cent of the deposits would be within the four-county area; is that right?

A. I am not sure but what you might be mixing apples and pears when you get down there, because, for instance, there is a hundred——

Q. Do you mean that the exhibit is mixing apples and pears, prepared by defendants?

A. I am frankly not too familiar with this exhibit. This says total time and savings deposits.

Q. Well, Mr. Brown, the exhibit was prepared by the defendants, was it not?

A. Yes.

In a moment I will take a good look here and I will try to answer your question.

Mr. Price: Did you want to know what the 94 per cent relates to? I haven't been able to find it on the exhibit.

Mr. Reycraft: It isn't on the exhibit.

Mr. Price: What?

The Court: It is the 100 minus the 6 per cent shown on the bottom line.

[fol. 3425] Mr. Price: Oh, the total time savings——

Mr. Reycraft: For some reason that is left out of the exhibit, the 94.

The Court: It is the 94 that isn't shown.

Mr. Price: This is another subtraction from 100; is that correct?

Mr. Reycraft: Yes.

The Court: That's it. It shows 6 per cent outside; it shows, ergo, 94 per cent within the four-county area.

The Witness: Yes, but I thought, as I first looked at this that mixing up items—what I really had in mind were so different from other items, mixing up people with $100 saving fund accounts, foreign time deposits of foreign banks, and time deposits of state and political subdivisions.

I think that is where I got the apples and pears idea. I think——

By the Court:

Q. They are still time or savings deposits, though, aren't they?

A. Yes, I think that's right.

Q. All right.

A. I believe that somewhere in the vicinity of 94 per cent would be the difference.

[fol. 3426] Q. And on page 2, which covers demand deposits, Mr. Brown, the first category, the first section, "Under $10,000 each," approximately 89 per cent would fall within the four-county area; is that right?

A. Yes, that is approximately correct.

Q. And the total in that category would be 87.3 per cent within the four-county area?

A. Yes, that would be approximately correct.

Q. In the second category, "Demand Deposits, Partnerships and Corporations," the first line, "Under $10,000 each," 89.7 per cent would fall within the four-county area?

A. I think that would be approximately correct.

Q. And "$10,000 each and over," 76.9 would fall within the four-county area?

A. I think that would be approximately correct.

Q. And of the combined total, just over 78 per cent would be within the four-county area?

A. Down at the bottom, are you referring to?

Q. No, in that category, "Demand Deposits, Partnerships and Corporations," both those under $10,000 and those over $10,000,

A. Would be what figure?

Q. About 78.3 per cent.

[fol. 3427] A. Yes, that would be approximately correct.

Q. And for the entire table, total demand deposits for

Girard, 77.2 per cent would come from within the four-county area?

A. I think that would be approximately correct. As a matter of fact, I believe that is so, just from my general knowledge.

Q. Turning to the last page, "Amount of Loans—September 21, 1960," in the first category, real estate loans under $50,000 each, more than 97 per cent would fall within the four-county area?

A. That would be approximately correct.

Q. Coming down to category 5, commercial and industrial loans under $50,000 each, almost 67 per cent would be within the four-county area?

A. That would be approximately correct.

Q. And in the $50,000 to $499,000 category more than 69 per cent would be within the four-county area?

A. That is about right.

Q. And in the last size category there, $500,000 and over, 55.6 per cent would fall within the four-county area?

A. I would think that approximately correct.

Q. And in the last line, gross lines, 61 per cent would [fol. 3428] come within the four-county area, would they not?

A. I would think that would be approximately correct.

The Court: Mr. O'Donnell, I think we will suspend at this time.

(Recess taken at 12:20 P. M. until 2:00 o'clock P. M.)

[fol. 3429] [File endorsement omitted]

AFTERNOON SESSION

GEORGE H. BROWN, JR., resumed.

Cross-examination. (Continued)

By Mr. O'Donnell:

Q. Mr. Brown, yesterday afternoon you described a number of small companies which grew. One of them you described as a company in the aircraft business, a small, growing company that wanted to extend its activities and move out to an industrial park.

A. Yes.

Q. Do you recall that company?

A. Yes, I do.

Q. You said that another bank came along and offered to give a mortgage on their property and your account diminished to a very modest balance. Can you identify the other bank?

A. The other bank was the Philadelphia National Bank.

Q. These 12 illustrations which you gave, 7 of them are outside the four-county area, are they not?

A. I am afraid I would have to look at that, Mr. O'Donnell.

Q. Yes (handing to the witness).

A. Yes, that would be correct. Seven are outside the [fol. 3430] four-county area.

Q. Would you say that that was business which rightfully belonged to the banks in those areas?

A. No, I wouldn't say that was business that rightfully belonged to the banks in those area, because the banks in the areas of a number of those out-of-town companies do not have the facilities for accommodating the companies, so that the banks in the areas just couldn't handle the business if they wanted to or were able to.

Q. One of these companies was in Evanston, Illinois, which is a suburb of Chicago. Are Chicago banks large enough to handle the business of that company?

A. When I described the company in Evanston, Illinois, Mr. O'Donnell, I was not describing anything about this company's inability to loan or our inability or ability to loan to that company. I was saying as to that company that we had gained its account, that we had been able to obtain its account, because we had performed a very special service down in Peru. This had nothing to do with the fact that the company needed a loan or anything of that kind.

Q. Do you have Exhibit D-40?

(Mr. Brennan handed a document to the witness.)

[fol. 3431] By the Court:

Q. Does it have the attachment?

A. No, it doesn't have an attachment, but I think I have a code to it, Judge Clary.

By Mr. O'Donnell:

Q. Do you have the code?

A. Yes, I do.

Q. Do all of these companies have their main office or large operations in the Philadelphia area?

A. I would say that most of these companies have their main headquarters in the Philadelphia area. There are some exceptions.

Q. Those which are exceptions have operations in this area; is that right?

A. Well, I don't know whether you could say a university which is some couple of hundred miles from here and conducts branch extension schools here in this area, that they are an operation here. I am not sure just how you would describe that.

Q. And other than that activity——

A. Well, the first one is in Philadephia. The next one is in Philadelphia. They are in the Fort Washington Industrial Park. The next one covers the world; they are every [fol. 3432] place. The next one has operations or operations related to it in this area. The next one has. The next one has. The next one, G, is the university. The next one has. The next one has. The next one has.

Q. You are now on letter I?

A. I am on letter I. They have a big operation here in Philadelphia.

J have a big operation here in nearby Philadelphia.

K have operations all over the country. That is a big financial corporation.

L is located here.

The next corporation is here or will be here. They have a pilot plant now over in New Jersey, and they are going to be located in New Castle when they get themselves really established.

Q. They are affiliated with two other companies in the Philadelphia area, are they?

A. Yes, they are.

The next company, of course, has a big operation here.

The next company has many activities here, but its big plant they have just moved out of that.

The next company has its location here.

[fol. 3433] The next company, Q, has its operations here.

R has its operations here.

S has activities here.

T, of course, is the university.

Q. That is located in this area?

A. Yes. This is out in Montgomery County, about a block from my home.

The Court: You don't know your county lines.

The Witness: You are quite right Judge. I live in Montgomery County, and this is right across the street, which is Delaware County. You are quite right about that. I am only wrong by about 300 feet.

The next one is a local department store.

The next one is a big operation here up in Bristol.

The next one has a subsidiary operation here.

The next one has an operation here.

Y has an operation here.

Z, I think that the operation that they had had now been discontinued here. They probably have sales offices [fol. 3434] but no real manufacturing.

Q. They maintain offices within a few blocks of here, do they not?

A. Well, if they do, I don't know that.

Q. I think you will find them in the telephone directory.

A. Oh, really? I don't know that. They are a very large textile company.

The next one is, of course, a Philadelphia company, double A.

Q. Z had many operations or had some major operations in this area, did they not?

A. I think they did, but I believe they were moved.

Q. Aside from making loans to these companies, do you provide other services to these customers?

A. Yes, a number of them we do provide other services.

Q. Do you provide a payroll account, for example?

A. We do for some of them.

Q. Which ones do you not provide payroll service for? Can you tell me?

A. I think we probably do not for A, B, C, D, E, F, G, H, I. We do for J. We don't for K. We don't for L. We don't for M. We do for N. We don't for O. We do for P.

Q. You do or you do not?

[fol. 3435] A. For P we do. For Q we do not. For R we do not. For S we do not. For T we do not. For U we do not. For V perhaps a small amount. For W we may provide some for its subsidiary here. X and Y would not have large staffs, so that wouldn't be much of a job for a payroll account. Z has no payroll account, and double A we provide part of their payroll account.

Q. Did you say for the first one you do not?

A. I do not believe that for the first one we supply payroll services.

Q. Do you provide other corporate trust services, perhaps?

A. No, we do not provide corporate trust services. They, I am sorry to say, have those done over in New York.

Q. Their main office is where?

A. Their main office is here, but their transfer agency is in New York.

Q. Can you tell me why they keep such a large deposit with you?

A. Well, I think they keep a very large deposit with us because we are a local company. They have need of large working sums for their operation of their many stores, and they look to us when they need it, although they

haven't had occasion to use very much in the way of credit [fol. 3436] in the last couple of years. Should they need it, they know that we are there to provide it.

Q. You provide corporate trust services for some of these others, do you not?

A. Corporate trust services?

Q. Take the last one on the list.

A. The last one on the list?

Q. Are you the registrar?

A. I think that we may be the registrar for that company. I think we may be.

Q. How about L? Are you the registrar of their common stock?

A. I think we are the registrar of their common stock.

Q. And as for company M, you are the registrar for the stock of one of the parents, are you not?

A. I think we probably are. I might say the job of registrar is not a very important one.

Q. Can you tell us why R carries such a large deposit with your bank?

A. Yes. That is a saving fund society. We do quite a lot of work for that society. For instance, one of their activities is a little competitive to our own. If you want to pay your bills through the saving fund society, you don't really have to have a checking account with us; you can [fol. 3437] go there and have them pay your bills. I would say last year they drew 1,500,000 checks on us paying bills for people. Of course, this meant that we didn't get the bank accounts of lots of those people.

We also provide them service at some of their branches. They are located near our branches in a number of instances, and it is a convenient thing for this society to deposit their daily receipts at our branch, and then we of course clear the items for them and give them credit.

Q. They need a commercial bank service?

A. Oh, they definitely need a commercial bank service, there is no question about that.

Q. Are they still represented on your Board?

A. Yes, the president of the company is a member of our Board of Directors.

Q. Are these deposits they maintain time deposits or demand or both?

A. No. A saving fund society would practically never maintain time deposits with a commercial bank, although there have been times when they had a little excess cash and didn't know quite what to do with it, they would ask us if we would take it on. We are not very happy about that when that occurs.

[fol. 3438] Q. Do you handle loans for what you call mortgage brokers?

A. Yes, we do. One of the ways that they acquire loans for their portfolio which they acquire—this is where they are acquiring loans from all over the United States—we have an arrangement whereby, in consideration of their saying that they will take the mortgage when it is in proper order, we will loan the mortgage broker who produces it and services it for them, let us say in Texas or California or wherever it may be, we will loan that broker the money temporarily until the saving fund takes over the mortgage and puts it in their own portfolio.

Q. I believe you said you handled payroll activities for company P.

A. Company P, yes, we do.

Q. They have a loan with your bank, do they not, or had a loan in 1960?

A. Yes, they have a loan with our bank. As a matter of fact, the director of our bank is the president—not now. He has just become chairman of the Board of this company.

Q. The deposit account they would maintain with your bank would be an amount larger than the normal com-

[fol. 3439] pensating balance which they would keep on a loan?

A. Yes, I think this company would endeavor to carry with us as much as they possibly could, because we are I think very much one of their favorites.

Q. The title on Exhibit D-40, Mr. Brown, indicates that the loans account for approximately 19 per cent of the lines available; is that right?

A. That looks about right, yes.

Q. This indicates, does it not, that these borrowers are not making much use of their lines?

A. Well, that would be true in some of the cases, but as I tried to indicate yesterday, when large companies have

large balances with you, you give them your line and you don't expect them to use your whole line. We would be very surprised if most of the companies in this list would use our whole line, although there are certain of these companies where we have very close relations. They might use our whole line knowing that we want to serve them to the nth degree because we are so close to them and they have such substantial relations with us.

Q. Are these formal lines of credit?

A. These are formal lines of credit, yes.

By the Court:

Q. What do you mean by "formal"?

[fol. 3440] Well, a formal line of credit means that our Loans Committee and our Board of Directors has considered it, has considered the balance sheets and the standing of the company—they have actually approved the granting of this line of credit—and then we write to the company and tell them that their line of credit with our bank is X number of dollars, which they are free to call upon whenever they care to.

Q. Did they request these lines of credit? Did they make an application to you?

A. Well, I would say it is about 50-50. We are very anxious to give them a line of credit because we know if we give them a line of credit, we are more likely to get some real deposits. On the other hand, in connection with the carrying on of their business they naturally want a line of credit, so I wouldn't say, really, who made the first move. I can say this, however, that we are anxious to give our good customers a line of credit that they know they can use any time they want to use it.

Q. Could you tell us, say, on company A, who made the first move?

A. No, I can't answer that. I don't know who made the first move.

[fol. 3441] By the Court:

Q. How long has your association been?

A. We have had an account with this company, oh, probably 25, 30, 35 years.

Q. 25 or 35 years ago you wouldn't know who made the first move?

A. No, I am afraid I wouldn't.

[fol. 3442] By Mr. O'Donnell:

Q. And you have had association with most of these companies for many years, would you say?

A. Well, let's see. Our lending relationship with G is of recent origin. They asked us for the line of credit. G asked us for the line of credit; I know that.

As a matter of fact, that proved a matter of great embarrassment to us. They wanted a line of credit of $7 million and I could only offer $6 million and this put me in a very embarrassing position and what I finally did is that I got in touch with one of our banking friends and said, "If they ever push me for $7 million I want some help"; so while they do have a line of credit for $6 million, I am committed to $7 million, so we had to do that in order to stay in the game because they said they could easily get the line of credit with the Mellon National Bank of Pittsburgh.

Q. Who was the other bank?

A. The Mellon National Bank of Pittsburgh.

Q. No, the other bank with which you arranged the additional.

A. Oh, this is just merely conversations I have had with a bank in New York, that I might some day have to turn to them.

Q. Does G do business with any banks in this state?

A. They haven't been, but in recent months and, as I say, in the last year, because they have a number of directors of [fol. 3443] the university in various cities around Pennsylvania, they have been placing time money in various parts of Pennsylvania; but the Mellon National Bank and the Girard, I would say, are the main banks where they would expect credit accommodations.

Q. Do you have the code to D-26 with you?

A. To what? D-26?

Q. D-26.

A. I am always missing the first and the last one here.

The Court: D-26 revised.

Mr. O'Donnell: The code, the index.
The Witness: Oh, yes. I do have that.

By Mr. O'Donnell:

Q. Would you look at number——
A. Do I have the code?
Q. The list of names.
A. No, I do not have the code here. I don't believe I have the code.

The Court: Hand this to him.

By Mr. O'Donnell:

Q. Will you look at No. 15 on that list.
A. No. 15?
Q. Yes.
A. That's the same university, No. 15, that I have just been talking about.
[fol. 3444] Q. And that has an $8 million line with the Philadelphia National, has it not?
A. That surprises me, actually, because I don't think that they probably ever used that line. If they have used it, I have never known about it.
It so happens that one of the directors of the university is on the board of the Philadelphia National Bank and I have the impression that this $8 million line from the PNB must be complimentary. I don't believe that that can be really a lending line.
Q. You have considerably more of a deposit than they have in this matter?
A. We have much more of a deposit than they have because we do handle their payrolls. That is one of the things.
Q. Of these 27, nine of the accounts are on both lists; is that right?
A. I don't really know the answer to that question, Mr. O'Donnell.
Q. I show you a comparison sheet.
A. Do you say they are on both lists?
Q. Yes.
A. Well, I would accept that. I know they are on our list.

The Court: How many?

Mr. O'Donnell: Two.

[fol. 3445] The Court: 1 and 2, are they included? I find 8 without too much trouble.

Mr. O'Donnell: Looking on the Philadelphia National list, Nos. 1, 12, 15, 16, 17, 18, 22, 24, and 25.

By Mr. O'Donnell:

Q. Earlier, Mr. Brown, it is my recollection you said that you did not provide payroll services for G, the university. Did I understand you to correct that just now? Is that the reason that you carry the large balance?

A. I think I should correct that because I believe that one of the services that we perform—this is a general account of the university and I believe that we do have some kind of a payroll reconciliation account for that university. I believe that is so.

We have had associations with this university for many, many years. Corn Exchange had it before we did.

Mr. Reycraft: That's all we have.

Mr. O'Donnell: No further questions.

Redirect examination.

By Mr. Price:

Q. Mr. Brown, you mentioned in the early part of your cross-examination reserve and central reserve cities. Will you state for the record the difference between the two.

A. Well, there is actually no difference now, Mr. Price, [fol. 3446] because if recent changes in the designations of such cities.

But the money centers like New York and Chicago would be central reserve cities and those reserve cities were, because I think the money moved around so rapidly there and probably because they had large correspondent balances that they made them carry usually a differential of about one additional percentage point of reserves, so that a reserve city, which we are, had 16½ per cent and until this recent change occurred a city like New York had about 17½ per cent.

This, of course, made them scream terribly but that has finally been adjusted.

Mr. Price: That's all I have.

Mr. Littleton: No questions.

JOHN McDOWELL, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. von Starck:

Q. Mr. McDowell, what is your present position with the Philadelphia National Bank?

A. I am Executive Vice President of the Philadelphia National Bank.

Q. How long have you held that position?

A. I have held that position since the middle of 1957.

[fol. 3447] Q. Do you know what your position would be with the merged bank, when the merger is consummated or if the merger is consummated?

A. Well, I expect to be Executive Vice President.

Q. Let's go from there back to the time of your graduation from school.

Will you tell us the first position you ever held.

A. Well, when I graduated from high school my first job was assistant bookkeeper at the Southwark National Bank at Second and South.

Q. In Philadelphia?

A. In Philadelphia.

Q. And then from there where did you go?

A. That was in February of 1923.

In 1924 I went to the Drovers and Merchants National Bank at 3110 Market Street, and there I did bookkeeping work, teller work, discount work, safe deposit box. I did most everything except janitor, I think.

Q. How long were you there?

A. I was there until the bank merged with the Bankers Trust Company of Philadelphia.

Q. When was that?

A. I think that was 1929 or 1930.

[fol. 3448] Q. And what did you do after that?

A. Well, the Bankers Trust Company closed in December, right before Christmas I think it was, December of 1930 and I went to work for the Closed Bank Division and assisted in the liquidation of some of the Philadelphia banks.

Q. The Closed Bank Division of what?

A. The Pennsylvania State Banking Department.

Q. Your bank having closed, you followed it to Harrisburg; is that it?

A. I didn't have any choice.

Q. How long were you with the Closed Bank Division?

A. I stayed with the Closed Bank Division until, I believe it was, February, 1932, when the RFC was formed.

Q. Then what did you do?

A. Then I went to work for the Philadelphia Agency, RFC, in the Federal Reserve Bank Building.

Q. What was the RFC doing at that time?

A. Well, the RFC was starting——

The Court: Loaning money, saving businesses and insurance companies.

The Witness: And banks.

By Mr. von Starck:

Q. What were your duties as assistant manager there?

A. Well, I wasn't assistant manager first. Before I left I [fol. 3449] was assistant manager.

I think my first duties were to assist in liquidating loans we had made to closed banks.

Then, after that, they got into an industrial loan program and I was in charge of that. I think when I left I was assistant manager in charge of the industrial loan program.

Q. What was the industrial loan program?

A. Well, they made loans principally to small and medium-sized businesses which could not get them from the normal banking channels.

Q. Were you in charge of making those loans or did you have some function with respect to making those loans?

A. Yes. That was my principal function. Now I didn't

make the loans. We recommended to Washington. They had to be approved by Washington.

Q. Did you have much experience with small and medium-sized businesses in your position with the RFC?

A. Yes, sir, I did.

Q. How long were you with the RFC?

A. I was with the RFC, I believe, from February of 1932 until June of 1940.

Q. Then where did you go?

A. I went to the Federal Reserve Bank of Philadelphia as assistant vice president.

[fol. 3450] Q. What were your duties with the Federal Reserve Bank?

A. My duties there—they had a program called 13(b) loans. They were loans that the Federal was authorized to make to business enterprises, and there again they were principally small and medium-sized loans, which could not be obtained from normal channels, normal banking channels.

Q. You might tell us now, what was the test when you say that these loans could not be obtained from normal banking channels.

A. Well, at RFC, and I think they do the same at SBA, they consider that the borrower or prospective borrower should get a turndown from its principal bank and one other bank.

Now maybe at RFC for a while we had two other banks. There may have been two declinations of normal banks or three; I am not sure which.

Q. In any event, the maximum was a turndown from three banks?

A. Three; that's right.

Q. How long were you with the Federal Reserve?

A. Well, I was only with the Federal Reserve Bank for a year and a half. I went to the Philadelphia National Bank on December 31, 1941, as vice president.

Q. How long did you remain as vice president?

A. I remained as vice president principally in the loan function until the middle of 1955.

[fol. 3451] Q. And then what did you become?

A. I became senior vice president.

Q. And then, as I understand it, in 1957 you became executive vice president?

A. That's right, sir.

Q. What are your duties as the executive vice president of the Philadelphia National Bank?

A. I am really responsible for the Banking and Operating Divisions and in the absence of the president act as the chief executive officer. I report to the president.

Q. What is your relationship to the loaning by the Philadelphia National Bank?

A. Well, the loaning function now of both the consumer credit and the commercial loans comes under Larry Worstall, who I think appeared on this stand; and he, in turn, reports to me.

Now under Larry Worstall, just as with Girard, authority has been delegated both to our in-town lending officers and to our branch officers.

Q. Would you consider yourself to be the senior lending officer of the Philadelphia National Bank?

A. I think so.

Q. Now will you turn to Exhibit D-26 revised, which was introduced by Mr. McLaren, which shows that for the top-line customers of Philadelphia National Bank for the year [fol. 3452] 1960 the average deposits exceeded the average loans by about 200 per cent.

Are you familiar with the customers who appear in Exhibit D-26 revised?

A. Yes.

Q. You have heard Mr. Brown describe what a formal line of credit is, have you not?

A. Yes, I have.

Q. Are the customers which appear on D-26 revised holders of formal lines of credit?

A. Yes, they are. I have to make some exception to that, sir, because there are four names appearing on here that really have commitments from us in the form of written agreements, two revolving credits, one is a V loan, and the other is a term loan; so that the amount of the revolving credit and/or the term loan or the V loan is included in their line of credit.

Q. And these four instances that you speak of really represent legal commitments; is that correct?

A. Yes, sir. We get a commitment fee and we are legally bound so long as they comply with the terms and conditions of the loan agreement.

Q. Will you give us the numbers of those customers.

A. Yes, sir, No. 22, No. 26, No. 17, and No. 18.

[fol. 3453] Q. You mentioned a V loan. What is a V loan?

A. A V loan—well, that is to one of our largest electronics companies, where they have a civilian loan and they also have substantial work with the Government and the inventory they have for Government contracts and the receivables they have due from the Government make a basis for a V loan, which is guaranteed by one of the armed services.

The total amount of the credit, as I remember, is somewhere around $35 million and 50 per cent of it is guaranteed by the Government. That part which is guaranteed, held by us, is not part of our regular lending limit and this is why you will see in No. 17 where we have exceeded our legal lending limit.

Q. I gather from your distinction between these four and the others that at least in accordance with the banking custom the formal line of credit is not a legal commitment necessarily?

A. No, sir. We do just what Mr. Brown does at his bank. We submit them to our Executive Committee and then we promptly write to all of these customers and tell them that their credit has been approved for the ensuing year and we hope that as their needs arise they will use it.

There is no formal commitment; we think a very strong moral commitment.

Q. Then, if and when they require credit, the situation is [fol. 3454] reviewed at the time the application is made; is that correct?

A. Well, unless there is some adverse change it's hardly even reviewed. I mean it's pretty much automatic unless we know there has been some adverse change in the credit of this company to which we have extended this line.

Q. You may recall that during the cross-examination of Mr. McLaren he was asked as to the services rendered to these companies which might justify these high balances. Let us take up each one of these customers separately.

I will ask you as to No. 1, what specific services are rendered by your bank to No. 1?

A. No. 1, Mr. von Starck, is a large supermarket with many outlets throughout our area. It does a gross volume of almost $1 billion and we do check collections and supply them with currency and coins.

Now I think I should explain here, sir, that you know these supermarkets many times are used for the cashing of checks, and the volume of check collections that we do for this company is pretty substantial.

Q. What do you mean by "pretty substantial?" I ask you that because I know Mr. Reycraft will.

A. Well, I haven't made a count of the checks we clear each months, but I suspect it is pretty large.

Q. Is there any payroll account carried by this customer? [fol. 3455] A. No, no. We just supply coin and currency.

Q. What was the amount of the high borrowing for 1960?

A. One million dollars.

Q. Now turn to Customer No. 2 and explain the services that you perform for that customer, please.

A. We furnish credit information, collection of checks, money wire and transfer, and coin and currency.

Now this coin and currency, may I explain just a second here?

This is a large steel company up in central Pennsylvania and they have their payroll up in a local bank and we furnish that bank with the coin and currency every payday to furnish this large steel payroll.

Q. By that you mean——

A. So that there is considerable work load here to do.

Q. By that you mean you furnish them with silver in order to enable them to make out the payroll?

A. The coins and the currency; that's right.

Q. I see that they did not borrow in 1960. Can you tell us when they last borrowed?

A. They borrowed on June 1, 1954 the last time.

Q. Do you know how much they borrowed at that time?

A. No, but as I recall this was a surprise. We had this line for many years and it hadn't been used and I think [fol. 3456] they had a big construction program up at

the steel company and, as I remember, the note was $5 million.

Q. Would you say that the services that you render for them are adequately compensated for by the average balance of $2,392,000?

A. Yes. We analyze these accounts and we are satisfied with them.

Q. You say you analyze the accounts. Are these accounts analyzed periodically in order to determine whether or not your costs are being returned to you by reason of the amount of the balance?

A. Yes, they are.

Q. How often do you analyze them?

A. I think it depends on the account. Where we are sure we have a satisfactory profit I don't think that we do it very often.

Where there is some doubt we might do it monthly.

Q. Turning to your Customer No. 3, will you tell us the services that you render for that customer.

A. In our Equipment Finance Department we handle some leasing of cars for this company, that is, their salesmen rent cars from a rental company and we finance the rental company.

We handle drafts, export collections, and foreign ex- [fol. 3457] change in our Foreign Department. We furnish credit information, lock-box service, account reconcilement, payroll account, collection of checks, time credit.

In our Time Credit Department we finance vending machines for the vending of their products, and we also handle money and wire transfer for this company.

Q. What do you mean by account of reconcilement?

A. Well, this is principally—not principally, but in most cases it's a payroll, where we put the checks in sequence so that they can easily be settled when they get back to the customer.

Q. Are those checks returned to the treasurer of the company?

A. Yes.

Q. Are they coordinated with his payroll accounts?

A. Well, you see, instead of him having to reconcile his balance each month and put these in sequence, we put them in sequence and show which checks are missing, so that he can easily reconcile his payroll account.

Q. You mentioned a payroll account. Is that different from account reconcilement?

A. Well, the reconcilement is the settlement of the payroll account.

Q. How much is the payroll account for this customer?

A. $241,000. That is the average, sir, for 1960.

[fol. 3458] That is approximately 10 per cent of their average balance?

A. That's right.

Q. Is that correct?

A. That's right.

Q. When was the last time that this customer borrowed?

A. They borrowed on October 21, 1959.

Because of the nature of their business, they are normally a seasonal borrower. I am surprised they didn't borrow in 1960, but they didn't. Their cash flow may have been such that they didn't need short-term borrowings in 1960.

Q. Now, how about Customer No. 4? What services do you render to No. 4?

A. Customer No. 4, we render credit information, coin and currency, collection of checks, and wire transfer.

Q. Incidentally, what does wire transfer mean?

A. Where we wire funds to other banks in the country for their credit.

Q. What was the high borrowing of this customer for 1960?

A. Four million dollars.

Q. Now turning to Customer No. 5, what service did you render to that customer?

A. Credit information, money transfer and wire, and we issue the employees' United States Savings Bonds to their employees.

[fol. 3459] Q. When was the last time that that company borrowed?

A. That customer hasn't borrowed since August of 1925.

Q. Why do you think that they maintain such a large balance as you show there?

A. Well, sir, I think that the treasurer must think that we earn it for the services we give here because, in looking particularly at this company, I am guessing, they have several hundred million short-term investments and I don't think they are so fond of us that they would just let us have a lush balance here if they didn't think we earned it.

Q. Turning to Customer No. 6, what services do you render to that customer?

A. We buy foreign exchange in our Foreign Department, credit information, account reconcilement—this is for account payable, where we reconcile the account payable checks, not payroll checks; and then collection of checks and money and wire transfers.

[fol. 3460] Q. What was the high borrowing for 1960?

A. $4 million.

Q. Customer No. 7, what services did you render for it?

A. Foreign Department. We collect drafts and buy ourselves foreign exchange. Credit information, account reconcilement, payroll, money transfer and wire, and check collection.

Q. How much is the payroll account of that customer?

A. $314,000.

Q. That is approximately 20 per cent of the average balance?

A. That is about right.

Q. When was the last time that this customer borrowed?

A. We are talking about No. 7?

Q. Yes.

A. They borrowed in 1960 a high of $4 million.

Q. Are you sure it was 1960?

A. Oh, excuse me, I am sorry. We are talking about No. 7. I am sorry. That was No. 6. No. 7, the last time they borrowed was 1956.

Q. How about customer No. 8? What service do you render for that customer?

A. Credit information, and this would be an important [fol. 3461] one, because this is a department store, and the work of seeking credit information for their charge accounts is pretty heavy. We issue savings bonds to their employees. Check collection. Here again this would be a lot of work. We have currency and coin, and there is a payroll here, a very small one.

Q. How much is the payroll?

A. Well, it is only $2500. It is because they have a branch store, and it is just for this one little segment of this operation.

Q. Maybe you can explain to us what credit information means as you use it there.

A. Well, I think our bank has, and probably Girard Corn too, have every department store in town, and when somebody comes in and wants to open an account, a charge account or installment account with these department stores, they check with our Credit Department. Furthermore, when somebody wants to pay for merchandise with a check, they will quickly call us and we try to find out if the check is going to be good. There is quite a bit of work in that.

Q. Do you maintain a department that performs these services?

A. Yes, the investigation division of our Credit De-
[fol. 3462] partment.

Q. When was the last time that this customer borrowed?

A. This is No. 8?

Q. Yes.

A. They borrowed in 1958.

Q. Do you remember how much it was?

A. No, I don't, but here again we get surprises from this customer. They don't borrow very often, but when they do, it is substantial amounts, and normally they don't stay on very long.

Q. While we are at this point, you might tell us why companies which seemingly infrequently use your borrowing capacity bother to have a line of credit particularly in this bank.

A. Well, I think a good many of these large commercial customers of ours from time to time need short-term funds, and I think they believe it is to their best interest to have a line and not need it than need it and not have it, and it is part of our over-all service to these commercial customers to not only do these operating jobs for them b also to make available to them our other service, and that is the lending function, and we view this as sort of an over-all relationship with this borrower, trying to do everything we
[fol. 3463] can to attract higher deposit balances.

Q. It is like a life insurance policy, which you hope you never have to use but it is nice to have?

A. Well it doesn't cost anything, and I think because we do give lines of credit, many times when suddenly they do need money for a tax payment or accounts payable or some

construction program, I think we get some of the borrowings.

Q. Will you turn to No. 9 and tell us what services you perform for that company.

A. Credit information, account reconcilement, and collection of checks.

Q. When was the last time that customer borrowed?

A. They haven't borrowed since July 5, 1945.

Q. How about customer 10? What services do you render for it?

A. Credit information, and we had collections for one of their subsidiaries in Pennsylvania.

Q. Has that company ever borrowed?

A. The last time that company borrowed was in 1942, and as I recall it, the last statement I saw, they had about two or three hundred million in short-term bills, so I doubt if they will be borrowing in the near term.

Q. How about customer No. 11?

[fol. 3464] A. No. 11, the services there are safekeeping in our Corporate Trust Department, foreign exchange purchases, credit information, and collection of checks.

Q. What was the high borrowing for 1960?

A. 4 million 4.

Q. How about customer No. 12?

A. Foreign Department drafts, foreign exchange, export collections, collection of checks, coin and currency, payroll, money transfer and wire.

Q. You spoke about payroll. Do you mean payroll account?

A. Payroll account, yes, sir.

Q. What was the average balance?

A. $52,000.

Q. What was their high borrowing for 1960?

A. $1 million.

Q. How about customer No. 13?

A. Foreign Department, export collections, export letters of credit, payroll account, collection of checks, wire transfer.

Q. How much was the payroll account?

A. $24,000.

Q. That was the average for 1960?

A. That is right, average for 1960.

[fol. 3465] Q. Incidentally, what happens to these payroll accounts? Is the balance maintained in there or what does happen?

A. No. What normally happens here, Mr. von Starck, they have a payroll account with us on pay day. Many times they just issue a check against their regular account, credit the payroll account, issue their payroll checks, and they come in as soon as the American Stores and check-cashing agencies and the bank send them in to us, so that the payroll account, really, on the average, is not very important, because we may have a large balance for just a couple of days, and as these payroll checks clear, come in to us, then it diminishes to practically zero.

Q. In other words, you don't really make any money on a payroll account?

A. No, no.

Q. How are you compensated for carrying that?

A. This is part of the compensation, these balances we see here, substantial balances carried by these large customers, because they are trying to compensate us in their regular account for the payroll work we do for them.

Then in addition to that some of these large companies [fol. 3466] have, we do a terrific job at our tellers windows cashing these checks for them.

When we get down here further, there is one of the railroads that we have to keep one of our branch offices open every other week three extra hours and then every other week for the first and third week and then the second and fourth week we keep it open I think for two hours to take care of the terrific load of these employees coming in cashing their payroll checks. We think the railroad compensates us with the balances they keep.

Q. Have I asked you what the high borrowing was for this customer in 1960?

A. We are on which one?

Q. 13.

A. $3½ million.

Q. Now, customer No. 14.

A. Yes. This is the one I was just referring to. In our Foreign Department we buy Canadian exchange, we transfer funds to England for dividend payments, credit information, account reconcilement, collection of checks, payroll, wire transfer, and coin and currency.

Q. What was the high borrowing for 1960?
A. $5,451,000.

[fol. 3467] The Court: We will stop here for ten minutes.

(A 10-minute recess was taken at 3:00 o'clock P. M.)

By Mr. von Starck:

Q. Now, referring to No. 15, which I think was the one at which Mr. Brown showed competitive surprise, will you please tell us what services you rendered to this customer.
A. We don't do very much for this customer except that I gather we handle income for a scholarship.
Q. How long have you had this customer?
A. I think we have had this customer since about February of 1960.
Q. How long have you been working on this customer?
A. That's why I was surprised Mr. Brown was surprised. I am sure we have been working on this customer through many sources—graduates, trustees—for at least five years.

By the Court:

Q. Is that why you put one of the trustees on your Board of Directors?
A. That seemed to be effective.

By Mr. von Starck:

[fol. 3468] Q. Is this a time deposit you have here?
A. Yes, this is the one time deposit on this sheet.
Q. And normally would you expect to develop and build up this relationship?
A. Yes. As I remember, when this was opened, the financial vice-president of the university evidently seemed to be under some pressure from the trustees from the eastern part of the state. A good part of the university's business went out in the western part of the state, and I think he was under pressure to establish other relationships other than Girard in the eastern part of the state, and we happened to be the fortunate one, and I think he opened this not just to open a time account, but I think it was on condi-

tion that we would give him a line of credit of $8 million.

Q. Can you tell me why an organization such as this requires large borrowings?

A. Well, they have big construction programs up there, and normally they have to come to the banks to handle the construction loan until they arranged their permanent financing, and the permanents are usually taken with a home and finance agency of the Government on dormitories, and so forth.

Q. Will you turn to No. 16 and explain the services which [fol. 3469] you render to that corporation.

A. In our Corporate Trust Department we act as subscription agent. We have a bank work program there. We have employee stock purchase loans, and we furnish them with coin and currency.

Q. What is an employee stock purchase loan?

A. Well, this utility makes available common stock of its corporation to its employees on a deferred payment plan, and the employees borrow the money from us and pay it off over a period of time.

Q. What was the largest borrowing in 1960?

A. $8 million.

Q. How about No. 17?

A. We are stock registrar. We have a special custody account for them. Welfare, Foreign Department. We collect drafts, letters of credit, export collections, foreign exchange. We furnish credit information, account reconcilement, payroll, issue savings bonds, collection of checks, and money wire and transfer.

Q. What was the maximum borrowing during 1960?

A. 6 million 6.

Q. Did you mention the payroll account?

A. Yes, I did.

Q. What was the average amount of that?

[fol. 3470] A. $722,000.

By the Court:

Q. Let us go back. Average $722,000. Per what? Per week, month, year?

A. This is the yearly average, the daily average for the year of 1960.

Q. The daily average for the year in their payroll account?

A. That is right, sir.

Q. And these others that you gave were the daily averages?

A. For the year of 1960.

Q. For the year. It wasn't per week?

A. No, sir, it was the daily average for the year.

By Mr. von Starck:

Q. Is it true that the average deposits for 1960 as they appear on D-26 were computed in the same way?

A. Yes.

Q. So that when you are comparing the average total deposits for 1960 with the average payroll account, they are on the same basis?

A. That is right.

Q. Did I ask you what the maximum borrowing was for No. 18?

[fol. 3471] A. For No. 18 the maximum borrowing was $1,260,000.

Q. How about No. 19?

A. No. 19, credit information, money transfer, check collections.

Q. Why is the amount of the line $23,500,000 for that customer?

A. Well, this is an electronic company that manufactures for television and radio, and they sell this equipment on installment, and when they accumulate a good bit of this paper in their own portfolio they sell it to us with a 50 per cent recourse arrangement.

Q. Would you say that the average balance of $12,348,000 for 1960 is related in any way to that additional service rendered?

A. Yes, sir.

Q. Could you have performed this service without that type of balance?

A. No.

Q. Can you tell us what the maximum borrowing was by No. 19 during 1960?

A. $20,325,000.

Q. Will you please explain No. 20.

A. No. 20, our services there are that we finance leases

through dealers for this company. We sell and buy foreign [fol. 3472] exchange. We act as owner-agent on certain equipment trust outstandings. Our Investment Department buys Treasury bills. We furnish them with coin and currency, money transfer and collection of checks.

Q. What do you mean when you say your Investment Department buys Treasury bills?

A. Well, with a good many of our customers, where they have excess funds temporarily, our Investment Department will buy bills for them. Our Credit Department will buy commercial paper. We have a municipal bond dealer account. They will buy short-term tax-free's for them.

Q. Do you charge them anything for this service other than the balance?

A. No.

Q. What was the maximum borrowing of No. 20 in 1960?

A. The amount that is on here, $648,000.

Q. That was the maximum for the whole year, then?

A. I think so. I have it marked here that this was the high amount, and I think this is right.

Q. How about No. 21?

A. No. 21, credit information.

Q. Does that explain the low average amount of the balance?

[fol. 3473] A. Yes, it does.

Q. Is that one where you are trying to supply additional services?

A. Yes. We call on this customer at least two or three times a year, and we haven't made too much progress, although last year they did borrow as high as $750,000 from us.

Q. By last year you mean during 1960?

A. 1960, yes.

Q. Now, how about No. 22?

A. No. 22, we are stock registrar. We do special custody work. There is an indirect financing of lease for equipment through our equipment finance department. We collect drafts. We buy foreign exchange, issue letters of credit, export collections, security transactions. Here again this is a company that would use our Investment Department for buying and selling short-term investments temporarily.

Q. What do you mean by special custody work?

A. I think we hold in custody for them their securities.

Q. In other words, they buy them through you?

A. And we hold them in custody, yes, that is right. We also buy commercial paper for this company. We furnish credit information. We issue U. S. Savings bonds to their [fol. 3474] employees. We collect checks, money wire and transfer, and we have a payroll account.

Q. How much was the average payroll account?

A. $331,000.

Q. How about No. 23?

A. No. 23, stock transfer agency, co-paying agent. This is a company that is in the paper products business, and they wanted to sell their new paper cups through a vending operation, and we are financing the vending operation so that they can sell their cups to them, and we have a substantial amount invested in that.

We collect drafts, foreign drafts, export collections, security transactions, credit information, lock box, collection of checks, payroll costs, money transfer and wire.

Well, payroll costs, excuse me, that is coin and currency.

Q. What does payroll costs mean?

A. I shouldn't have said payroll costs. This is really—we take care of their requirements for coin and currency.

Q. It means the same as the expression you used "coin and currency"?

A. That is right.

[fol. 3475] Q. There is no payroll account there, is there?

A. No, sir.

Q. I don't think I asked you what was the high borrowing during 1960. What was the last time No. 22 borrowed?

A. Oh, No. 22, 9/24/58.

Q. When was the last time that No. 23 borrowed?

A. I don't have a 1960 date here, but I do know they owe us $6½ million today.

Q. How about No. 24?

A. Export letters of credit, sight draft collections, collection of foreign checks, lock box, account reconcilement, corporate trusts, credit information, U. S. Savings Bonds, check collections, coin and currency, money wire and transfer.

Q. Does this customer have a payroll account?

A. No.

Q. What was the maximum borrowing during 1960?

A. $8 million. This is their acceptance company. This is one of these captive finance companies, and the captive finance company, wholly owned, borrowed $8 million from us, peak, in 1960.

Q. Is that one of the lines of credit granted?

A. Yes, it is a line of credit that we grant, and they can allocate it either for themselves or for their credit com-
[fol. 3476] pany.

Q. How about No. 25?

A. Foreign Department, import letters of credit, credit information, lock box, check collections.

Q. What was the maximum borrowing during 1960?

A. $2½ million.

Q. That is a department store, is it not?

A. Yes, it is.

Q. I think you said at one point during your prior testimony that you and Girard together handled most of the department stores in Philadelphia; is that correct?

A. No, I didn't mean to imply that. I said that we have all the accounts of all the department stores. I know that Girard has some of them. I don't know whether they have all of them. I know Provident-Tradesmens have some. I am sure Pennsylvania Company, I know Pennsylvania has some, and I would be surprised if Fidelity didn't have some, but the point I wanted to make is that in our bank we have all of them.

Q. And you supply credit information to these?

A. Yes, we do, and I think it only fair to say, in this one department store here, this lock box—I don't have the figures—we actually pick up all of the remittance in pay-
[fol. 3477] ment of their bills, and there are thousands of them a month, and we pick them up at the post office, we bring them down to our bank, we slit them, we open them, we put the check through, we make an accounting back to the department store. This is real work.

Q. Did I ask you the maximum borrowing of No. 25 during 1960?

A. I think so. $2½ million.

Q. How about No. 26?

A. No. 26, export letters of credit, export collections, Investment Department. Here again this is a company that

would use our Investment Department for buying and selling short-term securities. Account reconcilement, credit information, payroll, collections, wire transfer, coin and currency.

Q. What was the maximum borrowing during 1960?

A. We had a term loan. This is the one I explained. This is one of the term loans. In No. 26 we had a peak outstanding in the term loan of $3,968,000, and we had done some service station financing for them, and the peak outstanding in that was $7½ million.

Q. What is the average amount of the payroll account for 1960?

[fol. 3478] A. $806,000.

Q. How about 27?

A. We have in our Corporate Trust Department, we have transfer agent, dividend disbursement. We do a lot of work in our equipment finance for this customer, because you can see they manufacture trucks. We furnish credit information, payroll, check collections, and coin and currency.

Q. How much was the payroll account?

A. $29,000.

Q. Have you totaled the average payroll account where applicable for these 27 companies?

A. Yes, and it is just over $3 million.

Q. So that it is a little less than 3 per cent of the total of the average deposits for 1960?

A. Just about 3 per cent.

Q. I gather from what you have said that it is by reason of these services rendered by you that the balances in these instances on the average are approximately 200 per cent of the borrowing; is that correct?

A. The services plus the lines of credit.

Q. Are there other customers of the bank for which you render these services?

A. Many.

[fol. 3479] Q. Is this the type of business which you endeavor to develop?

A. We sure do.

Q. Are these companies appearing on this page of the type that would be described as being in the national bank market?

A. On D-26?

Q. D-26.

A. Yes, they are definitely national companies.

Q. And by that what do you mean?

A. I think they have attraction in the national market to our competitors from all over the country.

Q. And do some or any of them have financial relationships outside of Philadelphia?

A. I think most of them do.

Q. To your knowledge, are there any on this list who would take or would want a higher line of credit than you have now made available to them?

A. Yes.

Q. Will you tell us one by one the number of them and any information about them.

A. I think No. 4 would probably expect it, certainly require it, and higher than our present $8 million.

Q. Do you have any basis for that statement?

[fol. 3480] A. Well, you can see this is one of the largest finance companies in the country, one of the first three, and each time our lending limit has been increased they made it very clear, crystal clear, that they expected our lending limit.

Q. Incidentally, are the treasurers of this type of company appearing on D-26 fairly sophisticated?

A. Very.

Q. Do they keep in touch with the bank positions?

A. They sure do.

Q. Are they apt to know your lending limit?

A. They all do, I am sure.

Q. What is the next one you have in mind?

A. No. 11.

Q. What about No. 11?

A. Well, I think No. 11 could use a higher limit, because you can see they are in the oil production business, and when they go out and acquire new wells, they need large pieces of financing, and I think within about the last year and a half they had made an acquisition of another group of wells and asked us for $10 million. This is a rather small oil company, but we think reasonably well managed, good net worth, good earning record, and had we had $10 [fol. 3481] million at that time, we would have given it to them.

Q. What is the next one?

A. No. 13. You can see that is another control and computer company that is growing very fast. Their needs ahead I am sure are substantial. We have a very close relationship there, and I think they would expect higher than $8 million.

[fol. 3482] Q. Do you mean if they continue to grow as they have in the past?

A. Oh, yes, unless we in Philadelphia do something about this restricted lending limit.

Mr. Reycraft: Is this in answer to some question? What is the question?

Mr. von Starck: The question is what will happen when a larger lending limit is obtained by the bank.

Mr. Reycraft: That is a new question.

Mr. von Starck: That is a new question.

Mr. Reycraft: In response to the answer.

The Witness: Shall I go ahead?

By Mr. von Starck:

Q. You have heard the question.

A. I have a feeling, and this company brings it to my mind, that these companies are growing so fast and what will happen in the next decade is that unless we do something about our lending limit in our bank we are going to become less and less important to some of these very fast growth companies here.

I think it has happened in the last ten years. I think we in our bank don't have the position with these large companies that we used to have, and I would shudder to [fol. 3483] think where we might be ten years hence what we hear about gross national product and what going to happen in the growth of this country, if we sit in Philadelphia with these kind of customers with an $8 million lending limit.

Q. Is No. 13 an example of that?

A. Yes, I think 13 would be. I think I even have better illustrations than that, but that was the first one I happened to come to.

Q. What is your next one?

A. The next one would be 16. Now, this is one where

Girard has a very substantial interest too, and most of the other Philadelphia banks do.

Q. Why do you think they will need or take a larger line?

A. Well, this is a utility company and as Mr. Oakes testified the other day in deposition, these companies have programs ahead for increasing their output; and our experience with this company is that they go ahead with big construction projects until they get up to about a $40 million short-term commercial loan and then they fund it out with the public and pay us off.

This is continuing. This company happens to be borrowing the $8 million now, but I would suspect their plans [fol. 3484] ahead are that at about the end of the year they will fund this out, pay these commercial banks off, and then they will start another program. This is a continuing thing with these power companies.

Q. Do you have any knowledge as to whether they have had to go outside of Philadelphia at any time in the past to meet their needs?

A. Yes. They have, because they can't—not very long ago, and I would guess that maybe now they are close to $40 million, as I recall, and they go to Pittsburgh. They go to Pittsburgh; we don't.

Q. What is your next one?

A. I think my next one would be 17. Now, here again we join with Girard and many other banks in the financing of this electronics company.

Q. What is your reason for believing that they would need or take a higher line?

A. Well, as you know, they have the V loan, they have the open-line loan for their computers and on the electronic equipment.

On top of that they have a credit company where they finance the floor planning of their dealers and the installment papers of their dealers and distributors; so the need [fol. 3485] for funds here is tremendous and will continue.

It is a Philadelphia company and I think deserves the support of the top Philadelphia banks.

Q. Have you ever had any conversations with any officers of the company?

A. Yes. I think it was a mathematical error because the financial vice-president here is a very sophisticated man, but he did come in one day and wanted a larger line than we could give him.

When I worked out the mathematics based on his V loan guarantee, he said, "All right, I missed it, I have asked you for more than you can give me."

Q. Do you know if he got it anywhere else?

A. Yes, I presume he did.

Q. What is your next one?

A. No. 19.

Q. What about that?

A. Well, here again you can see that last year they, on installment or customer paper, owed us $20 million. This is a very fast growing company in the electronic and computer field and I would suspect their needs ahead will be tremendous.

This is another company which is one of our best accounts and I have a feeling that if we don't do something [fol. 3486] about lending limits here we are not going to be able to maintain our position here.

Q. What is your next one?

A. My next one would be another very fast growing company, No. 22, in the chemical business here in Philadelphia.

Q. What reason do you have to believe that it would need or take a larger line?

A. Well, this is a very conservatively-managed company and actually you will notice this is one that I mentioned that was covered under revolving credit. They don't take lines of credit, but they arrange revolving credits and they have had it with us for about ten years, and now there is about four or five other banks joining in this revolving credit for us. I think it's a total of $20 million or approximately that.

They pay us a commitment fee and they have only borrowed once in the last ten years.

Q. Have they borrowed——

A. But, nevertheless, they don't pay us this commitment fee because they just want to increase our dividend. They pay us because they think they might need it; and, this is really an insurance policy.

Q. You mean they pay you a commitment fee in addition

[fol. 3487] to maintaining the balances which we see on D-26?

A. Yes, sir.

Q. What is the amount of that commitment fee?

A. A quarter of 1 per cent.

Q. How about your next one?

A. The next one is that paper company I have referred to, and——

Q. Which number is that?

A. This is No. 23, excuse me.

Well, this company is a classic example of what I have been trying to get across here. This company (we were obviously the lead bank) had a very close and pleasant and long-time relationship. About a year ago they came to me and said that they saw ahead substantial needs for funds, perhaps as much as $40 million; and in order to prepare the New York banks to take care of them along with us they withdrew some of their balances from our accounts and placed it with two very large New York banks.

This is the one company that I think illustrates too the fact that while they didn't owe us anything in 1960, suddenly they owe us and one of the New York banks $6½ million; so that I want to make the point that the fact that they don't happen to have borrowed in 1960—these things [fol. 3488] happen very quickly. Suddenly they need funds and if they have a line of credit they need it.

This is another company that unless we do something with our lending limit—as a matter of fact, we have already lost some of our relationships and we are going to continue to lose more.

Q. Well, if the merger were consummated, do you think you would have a chance to get back some of those balances which have disappeared?

A. I think there is a chance we might, but even their needs of $40 million, if we had $15 million lending limit we still couldn't take care of it and they would still have to provide balances to the New York banks.

However, this is one account where the Girard, as I understand it, have no interest and this would be one who I am sure would be very disappointed and surprised if we didn't promptly raise our line of credit to $15 million.

Q. Is there any possibility that if you were to consum-

mate this merger you might get back in as the lead bank or more closely approaching the lead bank?

A. Yes, I think there are certain things they go to New York for and other things they come to us for. I think this would certainly add to our stature, particularly with this company.

Q. What is your next one?

[fol. 3489] A. My next one would be 24.

Q. What has been your experience with No. 24?

A. Well, you will recall I pointed out that they have an acceptance company and this acceptance company headquarters is located in Wilmington, Delaware, and we are the principal bank here in the East, although the parent company is domiciled in Chicago; but the financial man at the acceptance company has told us that they would want and expect us to give them our $15 million line.

Now they particularly need it here for swings between commercial paper. If the commercial paper market dries up they have to come to us and borrow. Then, when they can sell commercial paper they pay us off.

It's almost a daily transaction and they are handicapped because we only have a limit of $8 million.

Q. What is your next one?

A. The next one is 26.

Q. What about No. 26?

A. Well, 26 is one of our large customers and their needs for funds are continuing to grow. They have two joint ventures now, one with another one of our customers in the synthetic fiber industry, and then another joint venture with a customer that is not ours in the oil industry.

In the first joint venture with our customer they have [fol. 3490] already borrowed $8 million from us, just within the last four months.

On the other joint venture, which is not our customer, in talking to the president of this company and the treasurer, they made it clear that the week before I had been in their office for this second joint venture they had to borrow $12 million and they didn't even come to us.

Now this is another company that I really think that unless we do something in Philadelphia more and more of this is going to leave Philadelphia.

Q. Are those the ones that you wanted to call attention to on D-26?

A. Yes, on D-26.

Q. Are there any other customers, other than those on D-26, whom you have reason to believe would have borrowed more than $8 million in the past if you could have given it to them?

A. Well, I think this next illustration punches home two points. There was a coal company in this city that decided that coal was not for its future and they moved their headquarters to New York. They diversified. They used their substantial net worth of about $40 million in textiles, cowboy boots, a toy business; and in this diversification program they were surprisingly successful. They converted this company from a loss company in the coal business into this diversified company which now has a net [fol. 3491] worth of about $65 million, make about $8.2 million a year.

Last year we had very substantial balances from this company. They had commercial paper, they had American T.&T. stock, and they had substantial cash balances. Suddenly they make the decision to go into a chemical complex in Beaumont, Texas, where they are making tetraethyl lead and glycol.

This chemical complex suddenly is going to cost them $24 million. They came to us and asked if we could handle the financing. We told them our lending limit was only $8 million and, therefore, they had to go seek other help. We agreed to go to our legal limit. They went to Manufacturers Trust, New York, who headed up a syndicate including ourselves and a couple of Texas banks, and they have their $24 million.

Now on top of that if this toy business, which is expanding very fast—as you know, in the toy business, you start to build inventory in April and then you have datings on October 10. Meantime you have got all the inventory and receivables building up on you and then a flood of cash coming about October 10, and it looks to me like they are going to need several million dollars, short term, to finance this toy business, and we just cannot take care of it.

Q. What is happening——

[fol. 3492] A. The point, I hope I have made my two points, that here a year ago I wouldn't have thought this company needed any money, not a chance of using the legal

limit; and now here, today, I am sort of apologizing for an $8 million lending limit.

Q. What has happened to your relationship with that company by reason of the fact that they had to go elsewhere for this particularly big loan?

A. I think our relationship is all right and I think we will have reasonable deposit balances, and I am sure we will always have the opportunity of giving our lending limit; but certainly they can't depend on us now when they need us.

Q. Have they indicated anything to you in this regard?

A. Oh, I don't know that they have made any specific request. They know our position and understand it.

Q. I mean with regard to the loan in Texas.

A. I don't quite understand.

Mr. Reycraft: I object.

The Court: Read the question back.

Mr. von Starck: I withdraw the question, Your Honor.

The Court: All right.

By Mr. von Starck:

Q. Do you have any other customers in mind with regard to my question as to whether you have had to turn down [fol. 3493] requests for more than $8 million.

Q. Well, there is another one that comes to my mind and it's a large aircraft manufacturer with headquarters in Chicago, and here again this is one where our Midwestern representative has been called for several years——

Mr. Reycraft: I object unless he has direct knowledge. If somebody else has the knowledge, I think that person ought to testify about it.

Mr. von Starck: Your Honor, this witness is the chief lending officer in the bank.

The Court: I overrule the objection. He may proceed. Go ahead.

The Witness: And this company arranged a credit about a year and a half or two years ago—I may be wrong on those dates, I am not sure—and finally the treasurer of the company asked if we wanted to take 2½ per cent of a $125 million credit. We took the 2½ per cent of the $125 million credit.

Then within (I am not sure of these dates) maybe within the last three or four months, this credit was expanded by this aircraft manufacturer to $165 million and the treasurer called us and asked if we would take 5 per cent of the new credit; and because it exceeded our legal limit we [fol. 3494] couldn't do it.

Q. Were you able to get up to your legal lending limit?
A. No. He left it at 2½ per cent.

Q. So they didn't even move you up to the $8 million?
A. No, no.

Q. Are there any others that you have in mind?
A. No, I think that's all, Mr. von Starck.

Q. Now turning back again to D-26, what effect, if any, do you think the merger will have on the bank's ability to acquire additional customers similar to those profitable ones which appear on D-26?

A. Well, I would think our first aim would be to hold on to that which we have and service the growth of these present customers so that we can maintain our position. I think our main target with the larger resources and larger bank, and more efficient management would be the New York area, because we suspect that there are hundreds of millions of dollars of customers in our area, in our trading area, in New York balances—lines of credit and loans.

I think that would be one of our first objective.

We have in mind, we think that we can move up in sort of this big league with a $15 million limit and try to service these customers we have got to do some things in our own shop.

[fol. 3495] Just the other day you might have seen the announcement in the paper that we have employed a research director. We have in mind starting a Research Department that will do a job for our Retail Division and also our Wholesale Division. Now the Wholesale Division would be the one that would appeal, I think, to this type of customers.

Q. What do you mean, first of all, by a Research Department? What would be its function?

A. Well, for instance, in the retail side of the thing, our savings haven't been going up. I think we would give him a project of trying to find out whether or not our cus-

tomers' habits have changed and what has happened to our savings; I mean, why aren't our savings going up.

Let me illustrate quickly. We made an analysis in our bank before this research director got there and this is one of the reasons that motivated us to go into this, to find out how many of our time credit customers, in our Time Credit Department (there's about 50,000 of them) had special checking accounts or normal checking accounts with us. We were very disappointed to see very few.

Well, this research brought out the fact that somehow we were missing the boat along the line with these interview officers in our Time Credit Department; so, as a result, they have a check list now and every time credit [fol. 3496] customer that comes in they have to check to see whether or not they have got an account and ask them for an account.

This is the kind of research that we think needs to be done.

Now in the wholesale——

Q. What will the merged bank do with respect to that?

A. Well, I have a feeling that he is going to be the busiest man in the bank because everybody in the bank has some projects they want to be searched to see if we can't get a share of some of this business that is in our area, particularly at the retail level.

Now at the wholesale level I have a feeling that a good many of the banks have control officers out calling. I have a feeling (my associates probably are not going to like me for this) that some part of this is fairly superficial and what we hope to do to compete with these New York giants would be to really get a pretty high-powered staff in here and do a research job on each large commercial customer and prospect to see whether or not he is mobilizing his funds properly, whether or not his long-term financing is proper, whether there is something he can do with his equity, what his cost of capital is—I mean really do a pretty high-powered sophisticated job.

Now I mention this only as a goal. I don't think we at Philadelphia Bank can afford that type of thing now, [fol. 3497] I am not sure that Girard Corn can; but if we move into this area I think this is one thing that can be done that might be helpful.

Then too we——

Q. Excuse me. You say if you move into this area; do you mean by that the merger?

A. Yes.

Q. The combination of the banks?

A. Yes. We have started it now, contemplating the merger, by bringing in this chap from Gray and Rogers, and we will start to give him projects, both in the retail and the wholesale, to research for us to see if we can develop new services, new products, new approaches to get some of these large commercial customers.

Q. Will it be economical to do this type of thing more intensively after the merger than it is now?

A. I am not sure we can do a really effective job unless we are a larger bank.

Q. Is this the type of service, economic analysis of customers' problems, performed by New York and other city banks?

A. They do a pretty good job over there in these type of things.

Q. What else would the merged bank do in order to de-
[fol. 3498] velop and hold these large line customers?

A. Well, in talking to some of our large sophisticated treasurers, they seem to indicate to us that they look for direction from their banker concerning economics, money supply, security markets; and with this thought in mind at our bank we have had, for about the last 18 months, employed Paul McCracken of the University of Michigan to assist our economic consultant once a month to talk with our officers, seminars for our customers. We have had him out to our branches, talking to our Advisory Committees.

Now since we felt that pretty effective and pretty important for us if we wer oing to continue to grow and serve our customers as we think we should, we have started our own little Economics Department. I must admit it is very tiny—it is one young man with a secretary—but this is a start and I really believe that if we can go ahead with this merger we can develop something here.

While we wouldn't try to take on economists at the Federal Reserve Board or the large New York banks, I think we could do a job in Delaware Valley, particularly for the medium-sized businessman and the small businessman.

Q. In other words,——

The Court: It is four o'clock, Mr. von Starck. I still have more work to do in court.
[fols. 3499-3500] I have a hearing scheduled for four o'clock, so this case will recess until tomorrow morning at ten o'clock and court will recess for five minutes.

(Recess taken at 4:00 o'clock p. m. until 10:00 o'clock a. m. on Friday, July 21, 1961.)

[fols. 3501-3502] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWENTY-FIRST DAY

Philadelphia, Pa., July 21, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 3503] JOHN McDOWELL, resumed.

Direct examination. (Continued)

By Mr. von Starck:

Q. Mr. McDowell, on page 2893 of the record transcribed yesterday you referred to a large aircraft manufacturer. Do you wish to correct that

A. Yes, that should be airline company.

Q. At the conclusion of the session yesterday you had been talking about the proposed Economics Department of the merged bank. What other departmentalization or ad-

ministrative change do you propose to make in the merged bank?

A. Well, I think with this larger bank—and Mr. Brown, I think, has covered this very well—we would go into industry divisions, and particularly where the large bank had enough of one industry to really do a job on it, like the public utility industry or the oil industry or textile industry. I think he said enough on that subject.

The next thing I think we would do, and I would like to touch just on another point that he made yesterday, and that had to do with our international company. You will recall that under Section 25 of the Federal Reserve Act we can have this international company, but we can only [fol. 3504] put capital in and make advances up to $8 million.

Q. When you say this international company, does this company have a name?

A. Philadelphia International Investment Company.

Q. When was it formed by the Philadelphia National?

A. This was formed approximately nine months to a year ago.

Q. Under what law was that?

A. 25A of the Federal Reserve Act.

Q. Does this have a common name?

A. Well, the Edge Act.

Our major objective in forming this company was that we felt we could help our present customers and possibly future customers in financing some of the international operations. We also felt that there are other American companies that have potential in the international field and we might join with them in helping to finance their future operations. We feel, too, that our contacts internationally through this company might bring us with foreign companies that need American banking, and, furthermore, we think this is an important way in which to build the stature of Philadelphia National Bank in the international community.

[fol. 3505] Q. What does a company like this do?

A. Well, this company makes industrial loans, long-term, to companies in foreign countries. We have made seven commitments so far in this short time. We have made a commitment to a petrochemical plant in Argentina. We

have made two commitments in Chile, one to a steel company and one to a copper mining company. We have made two in Colombia, one to an appliance manufacturer and one to a can manufacturer. Both of those in Colombia were jointly with American companies. We have made one in Finland to a lumber and shipbuilding company, and we have made one in Japan to a chemical company.

Q. How does this affect the bank's business?

A. Well, we think principally it puts us in contact with good people abroad and builds our stature in the countries in which we make these commitments.

Q. Do you do this with the expectation of obtaining deposits or making loans?

A. We are not so sure that this will particularly produce deposits. We think it will produce letter of credit business and collection business for our Foreign Department.

[fol. 3506] Q. What would the merged bank do with reference to this activity?

By the Court:

Q. You started to say something about $8 million, you were limited. You didn't pursue that. What did you start to say about that?

A. Well, sir, under Section 25 of the Federal Reserve Act, this Edge Act, we at our bank can either put in capital or loans to this company only to the extent of our legal lending limit. Now we are competing in this field with Bankers Trust—they have an Edge Act company—Bankers Trust in New York, Morgan Guaranty, Chemical of New York Trust, Chase Manhattan, and First of Boston, so we are competing in this Edge Act field with really the giants in the banking businesses in America, and we think adding another $7 million to our limit here would make us much more competitive with those companies.

By Mr. von Starck:

Q. Do you have any further purposes or plans with respect to business?

A. Yes, we have some dream goals here if this new bank is approved. The next one would be to form a banking company under the Edge Act. Mr. Brown touched on this

too yesterday. One of our major goals would be to open [fol. 3507] an office in New York City, where, under this Banking Act, we could have a pretty fullfledged Foreign Department where we could issue letters of credit, accept acceptances, handle foreign drafts, handle foreign exchange.

Now, this sounds like a pretty bold step, us going into New York like David and Goliath, but with our terrific port here and with all the commercial business we have here, we are constantly confronted with our customers saying, "Well, we would prefer to deal with somebody having an office in New York, and our foreign banks don't understand why a bank 90 miles from New York doesn't have a significant office in New York to handle this foreign business."

So that would be our next, and then we have even a further dream goal, and I am really talking about the future. This again requires a large bank to take this bold step, and we have in mind establishing a branch in London. Now, we think if we could establish a branch in London we could draw many deposits in the sterling block area in dollars to our bank.

Q. What part does prestige and status play in this foreign banking business?

[fol. 3508] A. These foreign banks and foreign governments and foreign customers want to deal with the bigs. This is a status area, particularly in the banking business.

Q. Do you know of any other non-New York bank which has a New York office for the handling of foreign business?

A. Oh, yes. Bank of America has an office over there with 400 people in it.

Q. Are there any other banks?

A. Continental of Chicago. They are the two I can think of offhand.

Q. Are there any Canadian banks at all in New York?

A. Yes, I have a feeling that all of the Canadian banks have offices in New York City.

Q. Are there any other departments or activities?

A. Yes, one of our other aims would be to form a large and dynamic construction loan department. We have Construction Loan Departments, big ones, in New York, and some smaller ones in Philadelphia, and we would like to have a Construction Loan Department that could handle

these big high-rise aparments, office buildings, residential construction. At the same time we think, with the prestige of a $2 billion bank, we might arrange permanent financing [fol. 3509] with the permanent lenders, the insurance companies, the mutual savings banks, so that when a developer comes to us, we could get a whole package together, and then after the disbursement has been made, the building constructed, and settlement made, we would hope that we could service the mortgage.

Q. In other words, the merged bank would handle the temporary financing during the construction period?

A. That is right.

Q. And then place the permanent mortgage somewhere else?

A. And then we would hope to service it after it has been settled.

Q. Is there anything else or any other activity that the merged bank could engage in which is not possible or practicable at this time?

A. Well, I am not quite sure that this quite comes as strongly as the other points I have made, but I would think that our bank merged with Girard would make a fine area bank for the purchase and sale of Federal funds. We started this function in our bank. We have a large correspondent bank system, as you know. Girard has a reasonably large one, I think about 25 per cent as large as ours, and we think pulling these together in one bank in Philadelphia, which could be the largest bank in the Third [fol. 3510] Federal Reserve District, that we could do an effective job for our correspondents in the purchase and sale of Federal funds.

Q. What do you mean by the purchase and sale of Federal funds?

A. Well, when a bank has excess reserves, it can either let them lie in the correspondent bank or with Federal here, in this Federal funds market, which is a daily, volatile market, buy and sell all day long every day the banks are open. If a correspondent bank in Camden had excess reserves today of $2 million, they would call one of my associates and say, "Sell $2 million for us." He has contacts throughout the country and sells that $2 million just overnight. For that he gets anywhere from an eighth, de-

pending upon whether the monetary system is in an easy position that day, or in a tight position he will get anywhere from an eight to 3 per cent, which is the rediscount rate.

We think this is a service. Frankly, just as the national treasurers are keeping invested up, and we the large banks are keeping invested up, we think the smaller banks, in order to meet the earnings requirements to pay their dividends, will keep invested up, and this is a good means for [fol. 3511] the smaller banks to invest their funds through us.

Q. Are these new departments, new services, expanded departments, and expanded services the means with which you hope to hold the business which you now have in Philadelphia?

A. We would expect to hold the business that we have here now, and we think we need something to hold it because we are confident we are losing it. We think we might attract some back, and we are convinced that we could attract new business.

Q. What do you think will happen to the banking situation here if you do not provide these tools and this higher lending limit?

A. I think I expressed myself yesterday, and I couldn't be more convinced that I am right, and that is I think we are going to become a whistle stop in the banking business.

Q. You mean Philadelphia?

A. Philadelphia will be, yes, sir.

Q. You heard Mr. Brown testify with respect to his knowledge of the solicitation by New York banks of business here in Philadelphia. Does this coincide with your recollection and knowledge of that type of activity?

[fol. 3512] A. Yes, I know all the men Mr. Brown knows.

Q. What you have been talking about heretofore is the acquisition and the holding of large business customers. What effect, if any, do you believe that this merger will have upon the small and medium-sized business borrower?

A. Well, I think that some of these new services that we plan to render, like market research, our Economics Department, our divisionalization, our construction, will all substantially help the medium and small-sized business in our area. I am not so sure that these small businesses use

our Foreign Department as much as some of our larger businesses.

Q. You have had considerable experience with the small and medium-sized business, particularly through the RFC, and so forth. What do you think are the problems that beset small business enterprises?

A. I have been involved in this problem, Mr. von Starck, since about the early 1930's, and I have been through many small business financing programs. I think the basic problem in financing small industry is in the area of long-term and equity. I think everyone will agree that small business, short-term, is being well taken care of by the commercial banks.

[fol. 3513] Q. Has there been any or are there any examples of the efforts made by Philadelphia banks to take care of the short-term credit needs of small business?

A. Could I go back just a little bit here? The RFC had a small businessmen's program in the middle 30's. There was a lot of fanfare about it in the press, and I was in the RFC. We had a lot of interviews, not too many applications, and very few approval and even less disbursements.

The Federal Reserve Bank had a 13B program that I was involved in for a year and a half, and this was directed primarily for the financing of small and medium-sized businesses. We in the local reserve bank here did more business in the industrial loan program than any other Federal Reserve Bank. That is what my memory tells me. Some of the other banks did little or nothing. Ultimately the fed got out of the 13B industrial loan program.

One of the most significant programs we have had, just in background, was after the last war. Congress passed the Veterans Act to guarantee loans for homes and businesses to GI's. In Philadelphia we were the only bank in the country that set up Small Business Loans for Servicemen, Incorporated—Philadelphia Agency for Small Busi-
[fol. 3514] nessmen, Incorporated, a rather long title. We put an office at 15th and Sansom Street, where the garage is now. We staffed it with about ten people, and when these GI's came into the bank, instead of being shuttled from one bank to another, because this was a very complicated program to get the guarantees to the Government, we set up

a competent staff there, well trained, and through the life of this corporation they interviewed between 19 and 20 thousand veterans. We made 641 loans, totaling just over $1 million. Our losses on the loans were nominal. The expenses exceeded our income in this agency by $106,000. Now, all of the banks, of course, shared that loss, operating loss, and shared the nominal loss from loans, but I couldn't agree with Mr. Brown more when he said, I think it was Dr. Goodman, wasn't talking about Philadelphia when he was talking about the small businessman being a forgotten businessman.

[fol. 3515] Q. What is the policy of your bank with respect to branch loans to small business?

A. Well, we arm our branch managers with plenty of authority. We have as part of our loan policy that we want them to make small loans; we want them to be good bankers in their communities.

Any loan that is declined in some of the branches, not all, the branch manager must report the declined loan to the Advisory Committee in that branch. Monthly he makes a report of all loans he declines.

In addition to that, periodically we make audits of their loan portfolios and their policies to be sure that they are not too conservative in the handling of their customers' loans in the communities where they are.

Q. You heard Mr. Brown testify to the lending authorities of the branch managers for the Girard. Are they comparable to those which the Philadelphia National Bank has?

A. Yes. I have not heard Mr. Brown express himself on this point before, but I think this is clearly, in view of what he said yesterday and what I am saying today, that this will be the policy of the new bank.

Q. How many choices do you think that it is necessary for a borrower to have, and by that I mean choices of commercial banks, in order to fairly test the going rate for [fol. 3516] borrowing money and the credit standing of that borrower?

A. I think in the RFC and in the Fed and in the SBA now they require two or three. I think it is two in the SBA, and I would think that if he had alternate choices of two or three banks, that ought to be sufficient.

Q. Are you familiar with the Exhibit D-16 which, among

other things, shows that for loans up to $100,000 there will be after the merger fourteen choices of commercial banks in Philadilphia County, twenty-seven choices of commercial banks in the four counties, and fifty-one choices of commercial banks in the ten counties?

Are you familiar with that?

A. Yes, indeed.

Q. In your opinion, is that an adequate number of alternative sources?

A. Yes, it is.

Q. You heard Mr. Brown testify, and also Dr. Harris, with respect to the nature of participations by small banks and by large banks.

Do you have any comments with respect to their testimony?

A. No. I thought they did it much more clearly and concisely than I could, and more accurately.

The only thing I would like to add to what Dr. Harris [fol. 3517] and Mr. Brown said is that from my experience in twenty years in a commercial bank, I am convinced that in allocations by national companies and foreign banks and foreign governments, the size of the bank and the legal limit is important in your share of the loan.

Q. In other words, as I understand that, you meant that the lending-limit prestige of the bank is relevant to the share of the bank in the total amount of the loan?

A. I have no doubt.

Q. Now, you have mentioned participations in foreign loans. We haven't heard that before.

Is that very extensive in Philadelphia National Bank?

A. I didn't check them before I came here, Mr. von Starck, but most of ours are in South America, and I think an intelligent guess would say as to the foreign banks and to the foreign governments we might have ten or twelve.

Q. What foreign governments are involved?

A. Oh, gee—Argentina, Brazil, Venezuela are some of them. I am not sure I can remember any more.

Q. Is this a type of business which you hope to increase by increasing your participation under the Edge Act?

A. Yes, but we don't think we can do that just through the Edge Act. We think that participating directly in these [fol. 3518] loans with the larger banks in the country, that

once we show an interest in these countries, that we share in the trade between the two countries, that is, the letter-of-credit business and the drafts and collections and that, plus the fact that these countries have to keep substantial either gold reserves or dollar reserves; we think in showing our interest in the country and supporting them when they need it, that we will increase our balances.

We have substantially more balances in our Foreign Department for foreign banks and foreign governments than we have in loans outstanding.

Mr. von Starck: Will you mark as Exhibit D-41 four sheets entitled, "Function, Market Area and Type of Competition of the Philadelphia National Bank and Girard Trust Corn Exchange Bank."

(Document consisting of title sheet and four attached pages, bearing caption "Function, Market Area and Type of Competition of the Philadelphia National Bank and Girard Trust Corn Exchange Bank," was marked Exhibit D-41 for identification.)

By Mr. von Starck:

Q. Was Exhibit D-41 prepared under your supervision, Mr. McDowell?

A. Yes, it was.

[fol. 3519] Q. And does the Column A conform in general to the functional breakdown shown on Exhibit D-30, which is the exhibit which shows the amount of business by the two banks inside and outside the four-county area?

A. Yes.

Q. What is Column B?

A. Column B is the market area.

Q. What tests did you use to determine market area for this exhibit?

A. Well, that was the geographical location of alternate choices of the customer.

Q. And under Column C what have you listed?

A. That is our competition.

Mr. von Starck: Your Honor, there has been a considerable amount of testimony by other witnesses as to the types of competition, and I think Dr. Harris also testified as to the market area: and I will endeavor to get

through this exhibit with Mr. McDowell without too much duplication.

By Mr. von Starck:

Q. Now with regard to savings deposits, why have you put in as the market area "Philadelphia Metropolitan"?

A. Well, our analysis shows that our savings principally come from our metropolitan Philadelphia area.

Q. Incidentally, what do you mean by the expression, [fol. 3520] "Philadelphia Metropolitan"?

A. Well, I think that is described here—yes, that is the four-county area.

Q. Right.

Now, Dr. Harris and Mr. Brown have both testified as to the types of competition that is met in this field with the exception, I believe, of life-insurance policies.

Why do you have life-insurance policies as competitors for savings deposits?

A. Well, that's a combination of insurance protection and savings and, as you know, we have some good, strong life-insurance companies and agencies in this city and they are very aggressive and we think they compete for our savings.

Q. Now turning to time deposits of partnerships and corporations, why do you have as the market area the entire United States?

A. Well, because these time deposits are placed wherever they can get the highest rate, and the rate is determined by telephone calls all over the country or by their alternative choice of going into the bill market, the commercial-paper market, the acceptance market; and we think there is no doubt that this is a national market.

Q. Do you have any statistical information as to the extent of investment by corporations in United States Gov- [fol. 3521] ernment obligations?

A. Yes. The June issue of the Federal Reserve Bulletin, June, 1961, carries some statistics on the amount of Governments owned by commercial customers.

Mr. von Starck: I ask that this be marked as D-42.

(Federal Reserve Bulletin for June, 1961, was marked Exhibit D-42 for identification.)

By Mr. von Starck:

Q. What page do you have reference to in D-42?

A. The page for the United States Government obligations.

Q. Yes?

A. That would be page 691 of this Federal Reserve Bulletin.

Q. Is that the table marked "Ownership of U. S. Government Marketable and Convertible Securities"?

A. That's right.

Q. Point out the particular figure you have reference to.

A. Yes, it's about three quarters down the page and it says "Other Investors, Non-Financial Corporations, December 31, 1960."

They show over on the seventh column and the footnote indicates that this was a survey made by the Fed of 492 corporations in the United States, and that on this day they owned $10,741,000,000 Governments.

[fol. 3522] Q. Do you have any information in this exhibit with respect to the holdings of commercial paper?

A. Yes, sir, on page 686. You will notice at the top of the page "Commercial and Finance Company Paper" and the total on the left-hand column, the final total down to April, 1961, shows that there was outstanding on that date $4,884,000,000.

Q. Do you have any information with respect to the holdings of repurchase agreements of Government-bond dealers?

A. Yes. That is on page 692.

Q. Incidentally, you might explain for us what a repurchase agreement with a Government-bond dealer is.

A. Well, as you know, these Government-bond dealers make the market in Government securities and they always have an inventory of Government securities in their portfolio for selling or buying. They have to borrow that money to finance this inventory and one of the forms of borrowing is that when a national treasurer, say, would have a couple million dollars that he didn't need for ten days he could go to the dealer and say, "I have got $2 million to invest for ten days"; the dealer would sell him $2 million worth of securities which he has in his inventory with the

understanding that at the end of ten days he will buy it back, the dealer will buy it back.

There is a fixed rate of interest. The purchaser does [fol. 3523] not take any risk in market fluctuation.

Q. What does page 692 of Exhibit D-42 show with respect to the extent of that activity?

A. Well, the financing of Government-bond security dealers as of May 10, 1961—they have all sources here, but we don't use all sources because some of it is from commercial banks and banks elsewhere, but it shows that corporations on that day owned $1,049,000,000.

Q. Now, do you have any figure in this exhibit with respect to the extent of the holdings of bankers' acceptances?

A. Yes. On page 686 you will see beside the commercial there is another category of dollar acceptances. You will notice all the way over the total on the left-hand side of acceptances is $2,254,000,000, but I don't consider that our competition because some of that is owned by the banks. They own bills and other banks buy acceptances, and then the Fed makes a market in acceptances.

But "Others," which we think is other than financial corporations, owned as of the end of April $1,200,000,000.

Q. You might explain what bankers' acceptances are.

A. Well, they arise principally out of foreign transactions, although there are domestic transactions.

If our bank would issue a letter of credit and somebody [fol. 3524] makes the delivery of the goods and sends a draft in to be paid under this letter of credit, it gives the importer 90 days to pay; we accept that draft and when we accept it—see, it's not due for 90 days, it is credit that the importer gets. We accept it; then it can be sold out in the market.

Q. And there is active trading——

A. We are contingently liable if the importer, if the United States importer, doesn't pay; then the bank pays the acceptance.

Q. Is there active trading in those?

A. Oh, a very active market, a very active market; even the Federal Reserve Bank makes a market in these.

Q. Now, leaving time deposits of partnerships and corporations, will you explain why you have "International" under time deposits of foreign banks?

A. Well, as Mr. Brown said yesterday, these deposits have no home; they will go where the rate is the highest.

Q. And that means all over the world?

A. Oh, yes. If the rate is higher in Germany they will go to Germany; if it is higher in London they will go to London; if it is higher in Canada they will go to Canada.

Now, so long as where they put it, the countries are safe.

Q. How about Item 4, "Time Deposits, Domestic Banks"?

A. Well, this is a relatively insignificant account and I [fol. 3525] am not sure it is worthy of being on the exhibit. This arises principally when a bank with a large Trust Department has some uninvested funds and puts it on time with another bank.

Now, the only account we have in this category is one account from a local bank here that is servicing mortgages under a mortgage-warehousing arrangement. That bank that is servicing has all of the escrow accounts as the mortgages are paid and because it has all the escrow accounts but we are furnishing a participation of a large sum of money, that bank has opened a time deposit with us. It is only $1 million.

Q. And this is a purely local type of business?

A. Purely local and probably will be canceled soon.

Q. How about the time deposits for states and political subdivisions?

A. Well, we think that is local because the School Board and the City Treasurer are the principal ones that use this, plus Abington Township and others.

The State doesn't normally keep—I can not remember when we have had a time deposit from the State of Pennsylvania. They are usually in the bill market.

Incidentally, Mr. von Starck, Governor Lawrence, on June 15t', signed a bill permitting the State Treasurer to [fol. 3526] buy commercial paper. Now, it is on a very restricted basis, but he can still buy commercial paper.

Q. That was what Dr. Harris didn't remember; is that it?

A. This bill was signed on June 15th; it's a rather recent one.

Q. Now, leaving time deposits and going over to demand

deposits, you have Delaware Valley as the designated area for demand deposits of individuals. What did you mean by the Delaware Valley?

A. Well, that's the ten-county area.

Q. Why have you designated the Delaware Valley as the appropriate market area?

A. Well, we think these individuals are looking principally for convenience and service. Convenience is the principal reason.

Q. Do you draw your business from this general area?

A. Sir?

Q. Do you draw your business from this general area?

A. Individual deposits, yes.

Q. How about the demand deposits of partnerships and corporations? Will you explain that?

A. Well, it's clear that our small and medium-sized companies deal with the banks where they are best known and have some human relations with them and are convenient; [fol. 3527] and if the service is right I think these small and medium-sized businesses stay pretty close to Delaware Valley.

Q. What do you mean by small and medium size?

A. Well, business or loan?

The definition, as I remember the SBA gives to small businesses—this is small business—is any wholesaler that does a million dollars worth of volume a year—no, excuse me—any retailer who does a million-dollar volume a year; any wholesaler that does $5 million a year; and any manufacturer that has 250 employees, and depending on the industry in which he is he might have as much as 1,000 employees and still in that industry be considered a small business.

Q. Looking at it from the point of view of the bank, what would you say a small or medium-sized deposit was?

A. I would think a small deposit in our bank would be considered—my associates might not agree with me on this, particularly branch managers, but I would think it would be up to maybe $25,000. Medium-sized might be from $25,000 to $100,000.

There is no yardstick on this.

Q. It is just a question of judgment?

A. Yes, entirely.

Q. Now, you have the entire United States as the market [fol. 3528] area for large deposits of partnerships and corporations. Will you please explain that?

A. Well, as we went over these lists yesterday of the larger companies, I think it's very clear that our competition is the United States.

(Document entitled "Analysis of Defendants' Partnership and Corporation Customers Whose Choices Include Banks Outside Delaware Valley," was marked Exhibit D-43 for identification.)

By Mr. von Starck:

Q. I show you a sheet which has been marked for identification as D-43 and ask if that was prepared under your supervision in so far as the statistics relate to Philadelphia National Bank?

A. Well, Mr. von Starck, I think the second category there, customers located outside of the Philadelphia area or outside of the four-county area, was under my supervision.

Q. Where does the dollars of demand deposits of partnerships and corporations located outside the four-county area come from?

A. (No response.)

Q. In other words, where does that information come from?

A. Well, that was made up by our statistical staff and is part of other exhibits.

[fol. 3529] Q. That is part of Exhibit D-30, is it not?

A. (No response.)

Q. Now, will you tell us how you determined the customers located inside the four-county area who are not limited to a choice of banks in the four-county or the ten-county area?

A. What we did there was to take every depositor who had deposits of $100,000 and then applied the test of (1) did he have a line of credit of $500,000 or more; (2) has he known banking connections outside the four-county area; (3) does he have headquarters or a major branch outside of the four-county area; and (4) did he have a subsidiary company located in the ten-county area.

Q. And in your opinion——

The Court: Wait a minute, wait a minute.

By Mr. von Starck:

Q. Was that test sufficient——

The Court: Wait a minute. Wait a minute, Mr. von Starck.

By the Court:

Q. Now, Mr. McDowell, you have said here did he have a line of credit exceeding $500,000, did he have known banking connections, you said outside the four-county area, and it says here under "(b)" the ten-county area.

You said the same thing with respect to (3) and is the [fol. 3530] subsidiary located in the ten-county area.

That is the way you said it, which is just contrary to the reading that I made here. Now, which is correct?

A. The reading is correct. I was wrong, sir.

The Court: All right.

By Mr. von Starck:

Q. You meant the ten-county area?

A. I was trying to do that from memory and that was a mistake.

Q. In your opinion are customers which are of the character which you have described those which have alternative choices outside the local area?

A. Yes, sir.

Q. Now, how many such customers did you discover?

A. There were 153.

Q. Are the deposits of those customers the $149,805,000 which appears in D-43?

A. That's right.

Q. So that how much is the total demand deposits of such partnerships and corporations plus those located outside the four-county area?

A. The total?

Q. Yes.

[fol. 3531] A. $290,782,000.

Q. What percentage does that bear to the total demand deposits for all partnerships and corporations?

A. 70 per cent.

Q. Now will you turn back to D-41 and explain the market area for demand deposits of foreign banks?

A. Well, I have no doubt that this is international because they keep their demand deposits where they need working balances. Depending on the flow of trade between countries, that's where they keep their balances.

Q. How about the demand deposits of domestic banks?

A. Well, that obviously is a national market because banks in Philadelphia keep accounts all over the country.

Q. These are your correspondent bank balances, are they not?

A. Yes, they are.

Q. Why do you say that the demand deposits, United States Government, has no applicable market area?

A. Well, the United States Government keeps balances in pretty much any bank in the country that renders the service, E bonds, have tax and loan accounts where the proceeds of subscription to new issues are placed, and I don't think—no one is particularly competing with us, I don't believe, in this area.

I mean this is an allocation normally made by the United [fol. 3532] States.

Q. Now, how about demand deposits, state and political subdivisions?

A. Well, I see local, state government, and the political subdivisions, like the School Board and the City and that all keep their money in Pennsylvania.

Q. Are they required by law, so far as you know, to keep their funds in Pennsylvania?

A. I am not so sure about that, but I would think that bankers would sure be on the legislature's ear if any of the money that is generated in this state goes outside of the state.

Q. Now turning to page 3, where you have loans broken down, why have you designated the United States as the market area for real-estate loans?

A. Well, because we know that these real-estate loans in Philadelphia are purchased by all the insurance companies and mutual-savings banks throughout the country. We

handle the construction loans and they buy the permanents, and we know that they do this.

Q. How about loans to domestic banks, which you have designated as the northeastern United States?

A. Well, generally, these loans to domestic banks are made with a correspondent. In other words, our correspondent keeps their Governments with us in safekeeping [fol. 3533] and when they want to borrow money they just send in a note and say take so many bonds out of safekeeping; so that normally these loans to domestic banks are made in the own geographic area where they are close to their correspondent bank.

Q. Of course, loans to foreign banks are international?

A. Well, yes.

Q. How about loans to other financial institutions?

A. Well, of course, loans to other financial institutions, like finance companies and savings and loans is a United States market.

Q. Are these national finance companies that you are talking about?

A. Yes; and national insurance companies, they borrow occasionally.

Q. How about loans for purchasing securities?

A. Yes, because principally this category is brokers' loans, where brokers make loans with commercial banks to carry securities.

Q. You have designated that as the United States?

A. Yes.

Q. Loans to farmers?

A. I am no expert on that. I think we have a few loans up in Lansdale and Bristol and that to farmers, but I would think the farmer would confine his borrowing to his local area.

[fol. 3534] Q. It is a very small part of your business, is it not?

A. Very small.

Q. Now turning to commercial and industrial loans, why have you designated Delaware Valley as the area for small and medium?

A. Well, I think the local small businessman or medium businessman, as I think I said with deposits, would go where he is well known in the community, has built up a

record of credit, and it is convenient; and where he might have personal relationships generally.

It would be the exception if he would move out of his own area for a small or medium business loan.

Q. You have designated as competition the item trade credit. What does that mean?

A. Well, this is the credit that usually both large and small business, but principally small business, gets from their suppliers; and a study that the Federal Reserve made in 1958 on the financing of small business indicated that there was outstanding in accounts receivable at that time $56 billion. There were accounts payable outstanding of $33 billion; so, as I recall, the study of the Fed said that they felt that the difference there of $23 billion indicated that small and medium-sized business was getting this credit principally from their large suppliers.

[fol. 3535] Q. What has been your experience in analyzing the statement of small business?

A. Yes. Well, over a period of years, usually the largest current liability in a small or medium-sized businessman's statements would be accounts payable.

[fol. 3536] Q. Turning to the large borrowers, you have the United States. Why is that?

A. Well, I think our exhibits yesterday clearly indicated these national companies that we have have multiple lines and borrow from other banks throughout the country, and my experience has indicated that. We have no corner on the national companies.

Q. Will you turn to Exhibit D-43 and explain for us the magnitude of the loans Philadelphia National Bank had outstanding in this national market.

A. $141,547,000.

Q. That was customers located outside the four-county area?

A. Yes, it was.

Q. What was the dollar volume of loans that were outstanding from those 127 or so customers that you referred to before who are located within the four counties?

A. $84,594,000.

Q. What is the percentage of that total to the total of all commercial and industrial loans?

A. 74 per cent.

Q. So that 74 per cent of the total loaned to commercial and industrial enterprises by the Philadelphia National Bank is to these national type customers?

[fol. 3537] A. I think customers, yes, that have a national market.

Q. How about installment loans to individuals? You designated Delaware Valley as the market area.

A. These are consumer loans, time credit loans, and I think it would be very unusual for a customer to go outside the Delaware Valley for a time credit loan.

Q. Does Exhibit D-42 have any information in it with respect to the relevant holdings of these competitive enterprises?

A. Yes, Mr. von Starck, on Page 700.

Q. What does that show?

A. At the bottom of the page.

Q. Is that in the breakup of the table entitled "Installment Credit, by Holder"?

A. "Installment Credit, by Holder," at the bottom of the page, and if you look down at the first column on the left-hand side you will notice that financial institutions hold $41,988,000,000.

The Court: Wait a minute.

The Witness: No, no. Excuse me, I am wrong about that, sir. Financial institutions hold $37,434,000,000.

By Mr. von Starck:

Q. How much do commercial banks hold out of that?

[fol. 3538] A. Commercial banks hold $16,776,000,000.

Q. How about sales finance?

A. Sales finance hold $10,733,000,000.

Q. Credit unions?

A. Credit unions own or hold $3,937,000,000.

Q. Consumer finance companies?

A. $4,133,000,000.

Q. And all others?

A. $1,855,000,000.

Q. You have listed as part of the competition consumer loans, retail outlets. Does this table also show the magnitude of the holdings by retail outlets?

A. Yes, it does.

Q. What were they?

A. Right next to the other table at the bottom it shows the total of retail outlets holding installment credit was $4,554,000; department stores, $1,527,000,000; furniture stores, $1,077,000,000; household appliances, stores, $269,000,000; automobile dealers, $488,000,000; others, $1,193,000,000.

Q. In D-41 you have also listed mutual savings banks as competition for installment loans. What do you have to tell us about that?

A. Well, this was added at the last minute because I was [fol. 3539] surprised to learn that mutual savings banks can make home modernization loans under Title 1 of the FHA Act. I really didn't know that until about ten days ago.

Q. Do you know whether they do make such loans?

A. Yes, they do. We have in Philadelphia one that does.

Q. How about the geographic market area for single-payment loans to individuals?

A. Well, these single-payment loans to individuals are principally collateral loans, marketable security loans. Occasionally we do make single-payment loans to substantial individuals, unsecured, not very often. Most of our outstandings in this category of single-payment loans to individuals are really collateral loans, and we think that the person living in Delaware Valley would normally come to where he is well known and where it is convenient, where he has his securities, to make his collateral loan.

Q. What is the general makeup of this category of all other loans?

A. That is principally churches, hospitals, educational institutions. That is the principal category in that. It [fol. 3540] is sort of a catchall, but that is the principal category.

Q. Why have you designated the United States as the territory?

A. Well, these churches make loans through some of their agencies all over the country, and hospitals do too, and educational institutions surely are a national market.

The Court: Let us take a ten-minute recess.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

By Mr. von Starck

Q. Mr. McDowell, as executive vice-president of the merged bank, can you visualize that these steps that your bank would take would cause these customers or the public in Philadelphia to pay higher rates of interest than they would normally pay with the competitive position in the market?

A. No, sir.

Q. Can you visualize any steps which the bank would take which would cause its customers to keep their deposits with the bank if they did not wish to do so?

A. No. They have freedom of action to move their [fol. 3541] deposits any place they want.

By the Court:

Q. Not if you loaned them money, though?

A. Well, they have freedom of action, Your Honor. We might not like it, but they can do it, and sometimes do, by the way.

By Mr. von Starck:

Q. In your experience with the banking community and in the banking community of Philadelphia, what is your opinion about the competitive climate of that community at this time?

A. I have a feeling that we have a situation in Philadelphia which is as fierce competitively as any city I know of so far as banking is concerned. When I try to analyze why, I come to two factors which I think weigh heavily on us. No. 1, we had a lot of large trust companies in this town who about 10 or 15 years ago realized that they ought to move into the commercial banking field. They have done it and done it very effectively, and I am sure they made the right move. This, I think, has made our situation a little stiffer than maybe New York, Chicago, and Boston.

Then, too, we have gotten in managements here in Philadelphia the unconventional type of leadership in banks. [fol. 3542] I mean we have lawyers. We have an economist in one of our banks. We have gotten away from the old-line banker that used to do 2 for 1 current ratio and things like that. These fellows are free thinkers, and they have

added something to the bank. I think they have stepped up competition. I think it has been good for Philadelphia banking and the Philadelphia public in general, and this is a healthy situation; but sitting in a swivel chair as I do, it is tough from day to day to compete with this type of competition.

Q. How do you think the competition will be after the merger if it is permitted?

A. I think even more vicious, because they always try to take away from the big. I mean this is the way it is in banking. If you are big, you are the target, and there is no doubt, sir, that our competitors will really be working on us, and there will be some attrition, we appreciate that. We are going to do our best to keep it to an irreducible, to a minimum, but there will be real attrition.

Mr. von Starck: Cross-examine.

Cross-examination.

By Mr. Reycraft:

[fol. 3543] Q. Mr. McDowell, you testified yesterday that you had been working for some years on a customer of the Girard Trust Corn Exchange Bank. Do you recall that testimony?

A. Yes, I do.

Q. On page 2867. Are there a large number of those customers that you worked on fairly regularly?

A. Oh, yes, sir.

Q. And you were trying to get customers away from them on a pretty regular basis?

A. Yes, sir.

Q. Is there any restriction, so far as you know, as to your freedom to do that?

A. No.

Q. You do it without restriction in any case where you think it is good business for you? You will try to get those customers; isn't that right?

A. That is right.

Q. How do you go about it?

A. Oh, Mr. Reycraft, many times this takes years of cultivating a customer to change. Customers are reluctant

to change banking connections, and we do it principally through calling from time to time, and maybe a little entertainment from time to time, selling of new services, and trying to convince them that there is room for another [fol. 3544] bank and that we should be it, because of our stature or our service or our lending limit or what not. We use every competitive advantage we can to try to take away from our competitors.

Q. And I assume you tell them how good your services are compared with those of other banks?

A. We sure try.

Q. And if you have any particular service that you are proud of, I assume that you emphasize that to a considerable degree?

A. We do.

Q. And in addition to this type of competing for customers with the Girard, you do this with the remaining banks in this area, do you not?

A. Yes, we do.

Q. And in each case you will tell those customers of any services you have that you feel are better than those of the other banks; is that right?

A. Yes.

Q. So your bank is constantly trying to get new bank customers in this area from whatever source; isn't that right?

A. That is right.

Q. And perhaps the most important means of getting [fol. 3545] these customers is the services you are able to offer them?

A. That is right.

Q. So that as you increase these services you do have additional ammunition to use in trying to get these customers, haven't you?

A. That is right.

Q. And you expect that as you increase your services you are going to get more of these customers?

A. We expect so.

Q. You certainly have that in mind, haven't you?

A. We do.

Q. And as we have already said, this is applicable to

customers of all banks at this particular hearing; isn't that right?

A. I think the only exception I might make to that, Mr. Reycraft, would be where we have a good correspondent and where we don't have branches around that good correspondent. I am not sure we would be too aggressive there.

Q. You would desist from soliciting his customers too aggressively?

A. Yes.

Q. Who are your correspondents in this four-county [fol. 3546] area?

A. I am not sure I can name them all.

Q. Do you know how many there are?

A. No, I do not.

Q. Will you name the ones you think of at the moment?

A. Well, Industrial Trust, Frankford Trust, Liberty Real Estate.

By the Court:

Q. When you say "correspondents," you mean banks that carry a balance with you?

A. Banks that carry a balance with us, yes, sir.

Q. Can that be used as part of their reserve?

A. When they are not members it may be used. Liberty Real Estate isn't a member of the Federal Reserve Bank, so their balance with us is part of their reserve. Some banks that are members of the Federal Reserve still keep a balance with us for other services we render.

By Mr. Reycraft:

Q. I show you D-15, Mr. McDowell. Will you indicate those banks in Philadelphia County which are correspondents of your bank?

A. Well, now, I think we have to define "correspondent" a little bit, Mr. Reycraft, because even some of the large [fol. 3547] central city banks that compete with us pretty fiercely carry deposits with us. Do you mean——

Q. Well, I am using the term in the same reference as you used it in your prior testimony.

A. I see. I think we might have a small balance with Broad Street Trust.

Q. So they would be one of the correspondents within the terms of your testimony?

A. No. I think we compete just as fiercely for their business as we do for central city banks.

Q. That is the bank of which Dr. W. Carlton Harris is a director, is it not?

A. That is right, yes.

Q. Would you indicate the banks on that exhibit which are correspondents within the definition you used?

A. Within the definition I used?

Q. Yes.

A. I think Frankford Trust would be one. Now, only where we didn't have a branch pretty close to Frankford Trust.

And perhaps Second National Bank.

By the Court:

Q. Is that also up in the northeast?

A. Yes, it is, sir, up in Frankford, and we have no [fol. 3548] branches particularly close to Frankford. I think our closest one is in Kensington.

By Mr. Reycraft:

Q. The Frankford Trust is right across the street from your main office, is it not?

A. No. Frankford Trust, Mr. Reycraft, is up in Frankford.

Q. Are there any others in Philadelphia County?

A. No.

Q. Do you have correspondents in the outlying counties?

A. Yes, I have them here, yes. Bucks County, Delaware County, Montgomery County.

Q. Will you indicate the ones in Bucks County.

A. I am not sure I know. I don't know.

Q. Do you know as to any of them in the other three counties, Montgomery, Delaware, and Bucks?

A. Well, in Delaware County Chester is as competitive as Philadelphia, maybe more so, if possible, because there are three banks down there. This is the only independent bank in Delaware County. Fidelity, Philadelphia National Bank, and Delaware County National.

Q. Will you answer my question as to correspondents in Delaware County.

A. It used to be—I am not sure it is now—and if it is, [fol. 3549] it is a very nominal account.

Q. But it is one of those you had in mind?

A. No, it is not. That is what I was trying to explain, sir, that this is a local situation down there where there are two branches of the Philadelphia National Bank and Delaware County National Bank and the competition is very stiff. This is one where we have a branch right across the street and very competitive.

Q. How about Montgomery County?

A. Well, one I see here in Montgomery County, Jenkintown Bank and Trust, might be put in this category that you talk about, because we have no branch near Jenkintown, and I am not sure we would invade Jenkintown.

By the Court:

Q. Hasn't the Industrial Trust combined with that bank?

A. Yes, sir, June 30. It is called the Industrial Valley Bank and Trust.

Cheltenham National Bank, Mr. Reycraft, might be one, a correspondent, where we have no branches close by. These are the only ones.

By Mr. Reycraft:

[fol. 3550] Q. They are the only ones you know of?

A. Yes, sir.

Q. After the proposed merger, Mr. M'Donnell, I assume that your respective banks would retain their existing correspondents; is that correct?

A. Well, that is hard to predict, because we have common correspondents now. Instead of lumping the accounts of both, we might have one account which is smaller and they will probably seek a second bank.

Q. You would expect, however, to retain the same banks you have?

A. We expect that, yes. We are sure going to try.

Q. And the same relationship would exist, I assume?

A. What relationship?

Q. The relationship you described with reference to your reluctance to compete too aggressively.

A. I can't answer that, because this is a question of banking philosophy, Mr. Reycraft, and I have a feeling that at

Girard they have a different philosophy in their loan policy and business development policy, and I can't tell you what that policy will be after the merger.

Q. You are going to be executive vice-president of this bank, aren't you?

A. Yes, but I am going to have a chairman of the Board, [fol. 3551] who is chief executive officer. I am going to have a president, Mr. Brown, I am to report to. No, I don't think any one of us is going to make this decision.

Q. It is fundamental to your banking philosophy and has been over the years?

A. To us it has been. Let me explain. I think I ought to try to explain why. We have this big correspondent bank system. They keep substantial deposits with us. We help them in every way we can. We take their excess loans. We really try to be a big brother to these banks, and we didn't think, from our philosophy, that it was quite fair for them to keep their money in Philadelphia with us, generating from their area, and still go out and compete with them and try to take it away from them. This is one of philosophy, and I don't know how it will be resolved, I honestly do not.

Q. But up to the present time that is the situation?

A. In our bank.

Q. You testified yesterday, Mr. McDowell, about services which your bank rendered to 27 accounts which are indicated on D-26 (revised). You indicated that one of the services that your bank performed is credit information, [fol. 3552] and you do this for department stores in this area; is that correct?

A. Many of our customers.

Q. Many of your customers, not limited to department stores?

A. That is right.

Q. And this type of service requires a knowledge of local conditions?

A. Not local conditions as much as local companies, and we have in our bank, Mr. Reycraft, thousands of files that go back many years, and we have histories on these companies, and then we have access to other sources.

Q. Both as to individuals and as to companies?

A. Individuals and companies, mostly commercial companies.

Q. So that your information on the credit worthiness of people and companies in the area is rather extensive; is that right?

A. We think so, yes.

Q. And I assume that you could perform this type of service better than a Pittsburgh bank, for example, could for Philadelphia department stores?

A Yes, sir.

[fol. 3553] Q. To your knowledge, is there any Pittsburgh bank that performs any service of this type for a Philadelphia department store?

A. Not to my knowledge.

Q. So that this type of service is almost exclusively or exclusively local service?

A. A local service rendered by the commercial banks pretty much in this area. We do have other credit checking, like Dun & Brad and other reference sources.

Q. As far as commercial banks are concerned, you have no competition for this type of service from commercial banks outside the Philadelphia area; isn't that right?

A. On Philadelphia customers I think this is correct.

Q. So that a company doing business in Philadelphia, which requires this type of service, must use a Philadelphia bank; isn't that right?

A. I don't think he must use it. I think he normally would. I mean there are Dun and Brad and other credit sources that he could go to.

Q. But as far as commercial banks are concerned, there is substantially no alternative among commercial banks to those in the Philadelphia area; isn't that right?

A. I don't get the "substantially no alternative." I [fol. 3554] just don't get that.

Q. Let me explain that what I mean is he can't go to Pittsburgh, for example, to get this type of service from commercial banks.

A. He certainly would not.

Q. He would get it from a Philadelphia commercial bank?

A. On Philadelphia customers and individuals in Philadelphia.

Q. As far as account reconciliation services for payrolls, the same thing would be true, would it not?

A. Oh, no, no. No, I don't think so

Q. For local payrolls?

A. Well, for local payrolls he prefers to keep his local payroll here, but he doesn't have to, and the other banks under the same service.

Q. Do you have any information on the extent of the services of this nature rendered by banks, for example, in Pittsburgh to Philadelphia companies?

A. No, I do not.

Q. Do you think it is significant?

A. No, I do not, not so far as payrolls are concerned.

Q. So that essentially it is a local service; isn't that right?

[fol. 3555] A. Well, it essentially is. It doesn't have to be.

Q But it is at the present time?

A. Well, I think generally yes.

Q. You think potentially there might be some alternative there?

A. Oh, there is. Yes, there definitely is an alternative.

Q. But it is potential?

A. Yes.

Q. Now, with reference to lock box services, will you briefly recapitulate what that is.

A. Well, lock box service, Mr. Reycraft, is—remember what I described pretty much for the department store, where—

Let me go back a little bit, because that is a local situation, and I think it might be better if I explained it on a national basis. A company on the west coast sells here in Philadelphia or on the east coast here, and the east coast buyer, when he gets his invoice, instead of mailing the check back to California, which might take two or three days, unless it was airmail, to get there, and then through the San Francisco or Los Angeles reserve bank and get [fol. 3556] back here, it might take six days or seven days to be paid Now, we go to that California company and say, "Why don't you, when you invoice in our area, tell them to mail the check to a lock box in the Philadelphia post office, 32nd and Market?"

We go out there and pick up that mail. We come back, open it, put the checks through, and credit the account of the west coast——

Q. And he cuts down his float?

A. That is exactly right.

Q. So that the essence of this service is that it be close to the source of the mailing of the checks?

A. That is right.

Q. And with respect to furnishing services of this type in Philadelphia, you don't get any competition of any significance from the Pittsburgh banks, for example, do you?

A. Oh, yes, because this is done on an area basis. For instance, Philadelphia is not a lock box area for Philadelphia companies. These large national companies might have only—we have one——

Q. You have only one what?

A. We have one, I was thinking, that just set up a lock box arrangement, and they were only contemplating having [fol. 3557] six or eight throughout the whole country. In other words, they would have one in the Southwest, one on the West Coast, one in the Northwest, one in the Middle West, one in the Northeast.

Q. But as far as the Philadelphia area is concerned, your bank does offer the services?

A. With other Philadelphia banks.

Q. What other Philadelphia banks offer these services? All of them?

A. I would be surprised if they don't all.

Q. You think they all do?

A. Oh, yes, yes.

[fol. 3558] Q. Do you think the size of the bank gives one a competitive advantage over the other?

A. On lock box?

Q. Yes.

A. No. I think the principal factor there would be the service, how fast we could clear the checks and——

Q. You don't think that your size would give you a competitive advantage over the small banks in that regard?

A. No. In this area, Mr. Reycraft, I really think what will sell this service is how fast we can clear the checks and the cost we attach to rendering this service.

Q. And a small bank can do that as well as a large bank?

A. Well, if they have the national contacts to do it. Now, if they can clear the checks fast enough and if their price is right. This is really one of service and price.

Q. Yes. Would the same thing be true with reference to credit information?

A. Do you mean the small banks?

Q. Yes.

A. Well, in their local areas they probably know more about their local-area customers than we do.

Q. So that size wouldn't give you a competitive advantage in this area, would it?

A. Only that we might have more files and more names [fol. 3559] and know more about more people.

Q. How about the furnishing of coin and currency? Is this a service in which proximity to the customer is important?

A. I am sorry, I didn't hear that last word or two.

Mr. Reycraft: Would you read the question?

The Court: Read it back.

(The pending question was repeated by the reporter.)

The Witness: I am not sure that I could say that it is because, remember, I talked about this steel mill up in sort of Northeast Pennnsylvania yesterday. That's about 60 miles away, and we furnish coin and currency to the bank that handles the pay roll there.

By Mr. Reycraft:

Q. You furnish it to the bank?

A. And there is another one, if I may make an aside. We have some race tracks in New Jersey that are not right around our corner, and we furnish coin and currency through their banks to the race tracks.

Q. Isn't it a fact, though, that essentially it is a local service?

A. It depends on "local," Mr. Reycraft. I am not——

Q. Four counties.

A. I am not trying to be difficult; I am trying to explain. [fol. 3560] Q. Isn't the majority of your coin-and-currency business in the four-county area?

A. Well, the steel company is not.

Q. I am talking about the majority of your business.

A. Oh, well, the majority, yes. I might accept that.

Q. Yes. You don't have any real doubt about that, do you?

A. I think that would be a fair statement.

Q. How about the collections? Is this essentially a local service?

A. Collection of checks?

Q. Yes. I believe that's what you were referring to.

A. Well, the collection of checks, really, every bank in town does it for every customer, their customers; and really, the collection of checks, as Dr. Harris talked about, is the flow of the funds back and forth and people put their checks to be collected where they think they can get them collected the fastest.

Q. And this has no relationship to time and distance, to the distance from the customer or to the distance from the collection point?

A. I am not sure I could say that because I think there could be possibilities where a Philadelphia company that had accounts in Chicago, for instance, and had checks drawn on Chicago might mail them to Chicago. I am just not [fol. 3561] sure. I have a feeling that you just can't say this is a local service.

Q. Well, isn't it a fact that it is predominantly a local service?

A. I really don't quite get—do you mean that our local customers would send to us for collection?

Q. Yes.

A. Is that what you mean?

Q. Yes.

A. Our customers?

Q. Yes.

A. I think that's right.

Q. Now, just briefly, Mr. McDowell, you referred yesterday and again this morning to a loan of $130 million to an airline and you indicated that your bank received 2½ per-cent participation in the total loan.

Do you recall that?

A. Yes, I do.

Q. And that when later the loan was raised to $165 million, your participation remained at 2½ per cent?

A. That's right.

Q. Do you recall that there were 37 banks which participated in this loan?

A. No, I don't recall that.

Q. I believe you will find that Exhibit G-67 indicates that.

[fol. 3562] A. Yes.

Mr. von Starck: Do you have an extra copy there to show him?

By Mr. Reycraft:

Q. Isn't it a fact that all of the 37 banks on this list received exactly the same percentage of participation when the loan was increased?

Mr. von Starck: May this question be held until the witness is shown a copy of the exhibit?

Mr. Reycraft: Yes.

The Witness: To answer your question specifically, Mr. Reycraft, I don't know, but I don't see how they could be if we were offered 2½ per cent more. I mean somebody—wasn't somebody cut down?

By Mr. Reycraft:

Q. As I understood your testimony, you remained at 2½ per cent; is that right?

A. Oh, you mean since we couldn't take it?

Q. I am relying on your testimony.

A. I think the point I tried to make was that we had 2½ per cent in a $130-million loan or $125-million loan. When the company raised it to $165 million they said, "Well, you raise your percentage to 5 per cent."

Now, if we raised our percentage to 5, somebody else [fol. 3563] took less. Now——

Q. But you didn't raise your percentage.

A. Since we didn't take our 5, whether the other banks all took their same percentage, I don't know. I presume that was your question.

Q. My question or my understanding is that the percentages of all the banks remained the same after the increase in the total dollar amount of the loan. Is that correct?

A. I don't know.

Q. And you are quite specific that your bank was asked to take another 2½ per cent?

A. Yes?

Q. Now, if you will refer, sir, to a footnote on the sixth page of G-67 I believe you will find that the additional amounts to be participated in by the same banks are in the same percentage as shown on the exhibit for the original loan.

A. Page 6? I am sorry, page 6 of G-67?

Q. That's right.

A. Yes.

Q. Do you know whether any other banks on this list were asked to take an increased percentage when the loan was increased?

A. No, I do not.

[fol. 3564] Q. Do you know whether any were asked to take a decreased percentage?

A. Well, I would——

Q. Of course, you don't know.

A. I would suspect if we were asked to take an increase, somebody was going to take a decrease.

Q. But you wouldn't know who that would be?

A. No, I haven't the faintest idea.

Q. And as it turned out nobody changed anything?

A. Well, according to this note here that I had not seen before, this is true.

Q. Now, your bank's participation in that loan was $3,250,000; isn't that right?

A. Yes.

Q. Did I understand your testimony to be that you could not take $6,500,000, which would be 5 per cent?

A. No. They raised the loan, remember? They raised it from $130 million to $165 million. That made the problem, Mr. Reycraft.

Q. So that would have meant the 5 per cent——

A. That would have put us over the limit.

Q. By $250,000?

A. That's right. That's right. That was the problem.

Q. So you could have gone up to 4.8 or 4.9?

[fol. 3565] A. Yes, but the point is that they don't do that in a credit like this, that kind of a percentage.

Q. Now, other banks which had a participation of the

same size as yours include the Harris Trust & Savings Bank in Chicago.

Do you know what their lending limit is?

A. No, I don't know. These change constantly because of transfers from undivided to surplus and sale of new stock, merger.

Q. Now, the Wells Fargo Bank of San Francisco also had a participation the same as yours.

Do you know what their lending limit is?

A. They have just merged.

Q. With the Crocker-Anglo?

A. Yes.

Q. No, the American?

A. The American, yes.

Q. And their lending limit, according to D-24, is $15 million.

You don't know whether they were asked to take any more than 3½ per cent, do you?

A. No.

Q. The First National Bank of Boston also had a participation of $3,250,000, exactly the same as yours; isn't that correct, and their lending limit is $16 million; isn't that [fol. 3566] right?

A. I know their lending limit is $16 million. I am trying to find the figure. I will accept your $3,250,000.

Q. It is shown on D-24.

A. Yes. All right.

Q. And Crocker-Anglo had a smaller participation than yours, amounting to $2,600,000; and their lending limit is $10 million; isn't that right; $10,600,000?

A. I don't know what their lending limit is out there now.

Q. D-24 shows it.

A. Oh.

Q. And Bankers' Trust, which has a lending limit of $24 million, got a participation of $975,000, or .75 per cent. I believe you will find that is accurate by reference to G-67.

A. Bankers' Trust, how much?

Q. They got, according to the exhibit, $975,000 or .75 per cent.

A. Yes. I see that.

Q. And they have a lending limit, according to D-24, of $24,171,900?

A. Yes.

Q. You don't know whether they were asked to take an increased participation, do you?

A. No.

[fol. 3567] Q. Do you think in a loan such as this, where there are 37 banks involved, that if there were 38 it would make much difference to the borrower?

A. Not particularly, one more, I don't think.

Q. Not particularly?

A. No.

Q. So that if this borrower wanted $14 million from Philadelphia he could borrow $6 million from Girard and $8 million from the Philadelphia National and it wouldn't make much difference to him, would it?

A. No, except that I don't think that he is anxious to open another bank in Philadelphia because he does have some business here through the airline offices. We handle the currency and the cash and other services for that office, and we are the logical one to take his share in this area.

If he went to Girard he'd have to open an account over there and he doesn't want to do it.

Q. I think you have already testified that it doesn't make much difference if he had 37 or 38 banks.

A. Well, if he was opening some place where he had supporting balances, this would be true.

Q. Well, you assume he has supporting balances.

A. You didn't say one more bank in Philadelphia.

Q. You assume he has supporting balances in all 37 [fol. 3568] banks that are indicated on G-67.

A. I would be very surprised if he doesn't.

Q. So having a supporting balance in one additional bank also doesn't create much of a problem, does it?

A. Well, no, I won't accept that.

Q. Will you explain your answer?

A. Well, I think that these national companies like to keep their banks to a minimum and be important to each bank and use particular banks in the area in which they have outlets, and not spread them around among many banks in cities——

Q. Do you think it is unusual for a national company to have an account with more than one bank in a particular city?

A. No, I don't think it is, but I would think an airline company that doesn't have much cash would try to restrict their banking relationships as much as possible so that they can support their borrowings.

Q. Do you know whether this particular airline has an account with another bank in this area?

A. No, I do not.

Q. Now, referring to D-41, Mr. McDowell, I gather that D-41 is a summation of your opinion; is that correct?

A. Yes.

Q. Can you tell me what your opinion is based on in terms of statistics?

[fol. 3569] A. Well, I think from the Federal Reserve Bulletin we gave some of that, Mr. Reycraft. On some of these local, for instance, savings, I don't have specific statistics for those; but from my experience I have no doubt that savings deposits, mutual-savings banks, savings and loan associations, credit unions, mutual funds, annuity contracts, Government obligations, and life insurance.

Q. When did you begin the preparation of this exhibit, sir?

A. I would think about four or five weeks ago.

Q. What sources did you consult in reaching the conclusions which are summarized in this exhibit?

A. I think Girard Corn was consulted by—I am not clear on this, but it was given to me with some of these on there, and I added substantially more so far as competition was concerned.

I think the obvious ones were pretty much on there, put on there by someone; I don't know who it was.

Q. You don't know who put those on?

A. No, I do not, the obvious ones.

Now, some of the unobvious ones, I must admit that I put on.

Q. In other words, your conclusions were on there when the exhibit was handed to you; is that right?

A. Yes, that's right.

[fol. 3570] Q. Referring to Category No. 1, under Time and Savings Deposits, which is "Savings Deposits," you

indicate that the market area is Philadelphia metropolitan; isn't that right?

A. Yes.

Q. Do you know what percentage of the savings deposits of the combined bank originate in the Philadelphia metropolitan area?

A. I think there is an exhibit on that, Mr. Reycraft.

Q. Yes. If you will refer to D-30, I think you might see that.

Mr. von Starck: You have a copy of that, do you not?

The Witness: I have it in my bag; I don't have it up here.

Yes.

By Mr. Reycraft:

Q. Isn't it a fact that 94.7 per cent of Philadelphia National's savings deposits originate in the four-county area?

A. Savings deposits, individuals?

Q. Category No. 1.

A. Isn't it 90.12 per cent?

Q. Well, D-30 indicates——

[fol. 3571] The Court: 94.7 looks right to me.

By Mr. Reycraft:

Q. D-30 indicates 5.3 per cent of PNB originate outside the four-county area.

A. Yes, I have the 5.3.

Q. So we subtract that from 100 and we get 94.7.

A. Correct. I am sorry.

Q. And you are referring by your description of Philadelphia metropolitan to the four-county area—Philadelphia, Bucks, Montgomery, and Delaware; is that right?

A. Yes.

Q. Now with reference to your second category, "Time Deposits, Partnerships and Corporations," can you tell me the basis on which you came to the conclusion that the market was the United States?

A. On time accounts?

Q. Yes.

A. Right now, as of this morning, in our bank, Mr. Rey-

craft, we have $99 million worth of time accounts because of what has happened in the commercial-paper rate and the——

Q. Now, these are accounts which fall within the Category No. 2?

A. Time accounts.

Q. Category No. 2 on D-41?

[fol. 3572] A. Well, now, the $99 million might not all be from partnerships and corporations. Some of it is the International Bank; but the point is that these corporations that have time accounts with us are from really all over the country. We have calls from Detroit, from one of the large motor companies. They asked us to quote on a $1-million time account; so that these come from really, and these national treasurers are seeking the best rate they can get and they don't care what city it is or what bank it is.

Normally, they go to their bank of deposit, but this is a very volatile market and one which is being tested every day in specific cities and specific banks.

Q. And you consider that you are in competition throughout the United States?

A. Oh, Mr. Reycraft, in New York right now there are—the last estimate I saw in the New York Times about a week ago was that there were between $800 million and $900 million in negotiable time certificates outstanding in New York out of a total of $1 billion three. This is what the situation is in this area.

Q. In what area are you talking about?

A. In the area of time accounts.

The Court: Read that answer back. Read the question and read the answer. Go back several questions.

[fol. 3573] (The reporter read the testimony as directed.)

The Witness: Maybe I could clarify that, $1.3 billion of negotiable time certificates outstanding in the banking system in the country.

By Mr. Reycraft:

Q. Of that amount, how much is in New York?

A. About $800 million to $900 million. That was the last estimate I saw.

Q. This is about 80 per cent of it in New York?

A. In time-negotiable certificates.

Now, I want to be specific here. There are other time accounts, as Mr. Brown explained yesterday. There are time accounts taken under contract. They are not negotiable.

For instance, when we take a time deposit from our School Board it is not done on a negotiable certificate that can be sold in the market, in the open market. It is done on a contract with the School District and it is set with us for either 30, 90, or 180 days; and that stays with us for that period of time.

Q. Now, isn't it a fact, Mr. McDowell, that of deposits which fall in this Category 2 as shown in D-41, 57.6 per cent of the deposits in that category held by the Philadelphia National Bank originate within the four-county area? [fol. 3574] A. Yes.

The Court: As of June, 1960.

Mr. Reycraft: Yes, sir; that's right.

The Witness: Yes.

The Court: At which time there were a total of $10.6 million as against $99 million today.

The Witness: That's right, sir. This is what has happened in the short-term-interest-rate market.

By the Court:

Q. What would be your educated guess about the percentage that came from without the four-county area of the $99 million you have as of now?

I know that nobody is going to hold you to it; you would just have to guess.

A. No, I wouldn't want to be held to this, Your Honor, but——

Q. Half of it?

A. I would think between 30—maybe 30 and 40 per cent.

By Mr. Reycraft:

Q. Would come from outside of the four-county area?

A. Yes.

By the Court:

Q. Would come from outside the four-county area?

A. Yes, sir.

[fol. 3575] By Mr. Reycraft:

Q. So that would be consistent with the figures shown on D-30?

The Court: Which show 42.4 per cent from without the four-county area?

The Witness: Yes.

By Mr. Reycraft:

Q. That would be about the same?

A. Except that the amount is much greater these days. The percentage is the same; you are right.

Q. You are nodding your head, Mr. McDowell. If you can give oral answers it will be helpful.

A. Yes.

Q. Thank you.

With reference to Category 4 on D-41, "Time Deposits, Domestic Banks," over $10,000, the exhibit indicates that for your bank 100 per cent originate in the four-county area.

A. Remember, that was a bank that I explained was handling mortgage warehousing and this was a temporary —you will remember.

Q. Only one bank?

A. Just one bank.

Q. All right.

[fol. 3576] And with reference to Category No. 5 on D-41, 94.3 per cent originate within the four-county area?

A. Yes. That's principally the School District and the City of Philadelphia.

Q. And for the total time and savings deposits included in the five categories under I, "Time and Savings Deposits," on D-41, 81.4 per cent originate within the four-county area?

A. For Philadelphia National Bank.

Q. For Philadelphia National Bank; and that you may check by reference to D-30.

Now will you turn to the third page of D-41, under the heading II, "Demand Deposits."

The Court: What page?

Mr. Reycraft: It is II; the third page in sequence. That is on D-41, Your Honor.

The Court: D-41?

Mr. Reycraft: Yes. You have D-30 there.

It is marked page 2, but there is a cover page.

By Mr. Reycraft:

Q. Now, Mr. McDowell, for "Demand Deposits, Individual," you indicate that the appropriate market area is Delaware Valley?

A. That's right.

Q. Now, can you tell me what the basis is for that con-
[fol. 3577] clusion?

A. I think only my experience that I know of few individuals that get proper service that would move their individual demand-deposit account outside of the Philadelphia area.

I have difficulty in understanding why they would do it and I know of no case—I won't say I know of no case; I can think of none.

Q. Let me ask you how you made the distinction in this situation between Delaware Valley and what you have referred to as Philadelphia metropolitan in other places in this exhibit.

A. Well, I have a feeling——

Could I understand that question, please?

Mr. Reycraft: Read the question back.

(The pending question was repeated by the reporter.)

The Witness: I think the only explanation for that, Mr. Reycraft, was that if some of our customers were on the periphery of this four-county area, they don't understand political barriers as some reason why they have to keep their deposit in Bucks County if they can keep it in Trenton.

By Mr. Reycraft:

Q. And you had a feeling that a substantial number of these were located outside the four-county area, but within
[fol. 3578] the ten-county area?

A. Well, I don't know that "substantial" is the right word.

Q. Well,——

A. We had a feeling that this was an alternate source for them and that they could use it, particularly for their deposit accounts.

Q. Who is "we"? This was your conclusion, wasn't it?

A. Yes; and also I mean the transportation is so good and some of them might work elsewhere.

Q. And is that the basis for your decision?

A. I think so.

Q. For your opinion that Delaware Valley is the appropriate market area?

A. Yes.

Q. For Category 1?

A. Yes.

Q. Now, did you apply any quantitative studies in determining which market area was appropriate for any of these categories?

A. No.

Q. So that if it is a fact that of Category No. 1, "Demand Deposits, Individual," 99.5 per cent of your bank's deposits in that category originate in the four county area, did you take that into consideration?

[fol. 3579] A. I am not sure that I did, because when I made this up I used my own experience rather than any statistics.

Q. And that is what this entire exhibit is based upon; is that it, your experience?

A. Yes, on mine; that's right.

Q. I understood, I believe, you to testify under your qualifications that you are an economist or that you have had economic training.

A. Oh, no, sir.

Q. Well, you were a business analyst?

A. No, sir.

Q. Well, can you characterize it for me?

A. Well, I think I described yesterday that upon graduating from high school I went to work for a local bank in South Philadelphia and from that point on I have been in the banking business.

Q. Well, I was impressed with your background and I thought it qualified you as an economist.

A. Thank you.

Q. Nevertheless, I want to ask you, in reaching the conclusion that the Philadelphia metropolitan area was the appropriate market for savings deposits and your figures are 94.7 per cent, and your conclusion that Delaware Valley on the next page is the appropriate market area, where [fol. 3580] the percentage is 93.5 per cent, or 1.2 difference to take you from a four-county market to a ten-county market—did this cause you any logical problems?

A. I don't quite understand the question. Could I have it read, please?

Mr. Reycraft: Yes.

(The pending question was repeated by the reporter.)

The Witness: I think I testified before, Mr. Reycraft, that I did this from personal knowledge. I don't even think I saw this other exhibit when I personally supervised the putting down of this competitive situation.

By Mr. Reycraft:

Q. The answer is you didn't, because you didn't know the figures?

By the Court:

Q. Would it change your mind at all if you even know these statistics?

A. No, no. it would not.

Q. You are talking about where a person keeps his checking account——

A. That's right.

Q. Somebody who work on Market Street might keep it in Wilmington?

[fol. 3581] A. That's right; and somebody in Yardley might keep it in Trenton.

By Mr. Reycraft:

Q. And you think that in a situation where 93.5 per cent of the deposits originate within the four-county area, that that, nevertheless, would not necessarily be the appropriate market area?

A. We are talking about which deposits now?

Q. Demand deposits, individuals.

A. There might be some inconsistency, but if there is I explained that I did it without these statistics.

Q. Now with reference to the second category on the page numbered 2, did I understand you to testify that small and medium included up to $50,000, or what was it?

A. (No response.)

Q. 100,000?

A. Yes. I think we were talking about loans, remember; and while this is a judgment statement I think I personally would consider small and medium-sized loans up to $100,000.

Now, remember——

The Court: You were talking about deposits, partnerships, and corporations, when you categorized small, medium, and large.

The Witness: I think maybe I was; that is [fol. 3582] right.

Yes. Thank you, Your Honor.

By Mr. Reycraft:

Q. I believe you indicated that it was up to $100,000, the top of medium?

A. I think that's right, yes.

Q. I think that's right. I am not trying to confuse you.

You don't have the figures for those categories, did you?

A. No, no; none whatever.

Q. But you reached a conclusion that for small and medium-sized demand deposits of partnerships and corporations the appropriate market area is Delaware Valley; right?

A. Yes.

[fol. 3583] Q. And this again was on the basis of your background and experience?

A. That is right.

Q. And not by reference to statistics?

A. No.

Q. And you reached the conclusion with reference to

the market area on large demand deposits of partnerships and corporations in the same manner; is that right?

A. That is right.

Q. I point out that D-30 indicates that for demand deposits of partnerships and corporations under $10,000—we don't have the categories precisely listed—99 per cent originate within the four-county area, and with reference to all of the demand deposits in category 2, 66 per cent originate in the four-county area. Now, wouldn't you think that the fact that 66 per cent originates in the four-county area indicates that that is the most relevant market area?

A. Oh, no. On demand deposits?

Q. Yes. I am asking you whether it is not the most relevant market area for deposits of that type.

A. Well, I think it might be the most relevant market, but I assure you, Mr. Reycraft, that so far as our solici-
[fol. 3584] tation and efforts are concerned to obtain——

Q. Well, the exhibit indicates about the third——

A. Statistically it does.

Q. —about a third originates outside the four-county area, so there is no question about the fact that you do solicit outside the four-county area?

A. We have more solicitation outside the four-county area than we have in.

Q. You have to work harder outside the four-county area?

A. That is right, but I don't want the record to show that we think, on demand deposits, that the four-county area is really our main source of future growth.

The Court: Are we talking about demand deposits, partnerships and corporations?

Mr. Reycraft: Yes, sir, on page 2.

The Court: Well, under $10,000 they have $300,000 outside the four-county area, and for $10,000 and over they have $140,700,000.

Mr. Reycraft: Yes. The combined category, Your Honor, I believe indicates that 66 per cent of the total of demand deposits of partnerships and corporations originates within the four-county area.

[fol. 3585] The Court: They have $245 million, but $140

million is important money in somebody's life. It looks awful big to me.

Mr. Reycraft: I don't question that at all.

The Court: It may be small to you, Mr. Reycraft, but it is awful big to me.

Mr. Reycraft: You flatter me.

The Witness: In addition to this, our correspondent bank deposits mostly come from outside the four-county area, you will remember.

By Mr. Reycraft:

Q. Yes, but as far as this second category is concerned, it is a fact, isn't it, that the most important source of your demand deposits for partnerships and corporations at the present time is the four-county area?

A. Well, I wouldn't say the most important source, really.

Q. The biggest?

A. When this was made up.

Q. You will agree that 66 per cent is bigger than 34 per cent?

A. That is right; but remember I called to your attention [fol. 3586] yesterday that this is a very volatile type of thing, and these monies go in and out, and as of the time this was made up, our daily average for June, this was true, but I don't think we should imply that Philadelphia National Bank, with what we are trying to do in the national and international market——

Q. You shouldn't do what?

A. Imply that the type of job we are trying to do in the international and the national market, that a large percentage of our future growth is dependent on demand deposits in the four-county area.

Maybe I said that wrong. I didn't mean to.

Q. Would you like to hear your answer read back?

A. I didn't mean to use the word "imply."

Q. At the present time 66 per cent originates within the four-county area?

A. This is what the record says, yes.

The Court: I would say that 13 months ago instead of at the present time.

By Mr. Reycraft:

Q. Do you have any information which indicates that these percentages have changed in the meantime?

A. I have no information.

[fol. 3587] Q. In either way?

A. Either way, no.

Q. Now, you testified that with respect to category 5, the United States Government keeps demand deposits in every bank that renders them a service; isn't that correct?

A. That is my understanding.

Q. Would the same thing be largely true of corporations, that they keep deposits in every bank that renders them a service?

A. Well, not quite so. I mean there are some, because of old sentimental reasons or long-time relationships, there might be, and I am not sure we don't have some, where we have some deposits where we are concerned we are not earning our way.

Q. The consideration of past services, perhaps, in those cases?

A. Perhaps.

Q. Mr. McDowell, isn't it a fact that with unimportant exceptions, corporations keep demand deposits in all banks which provide them services?

A. Yes.

Q. On D-41, page No. 2, the market areas you indicated are Delaware Valley twice, the United States twice, one [fol. 3588] international, one Pennsylvania, and one not applicable. By reference to D-30 I believe you will find that the total demand deposits originating within the four-county area are 55.8 per cent of all Philadelphia National Bank demand deposits. Would you agree, sir, that the most important market for demand deposits, as far as Philadelphia National Bank is concerned, is the four-county area at the present time?

A. I would think at the present time yes.

Q. And on page 1, with reference to time and savings deposits, where you indicate the market area as being Philadelphia metropolitan, United States, international, Philadelphia metropolitan, and Philadelphia metropolitan, wouldn't you agree that over-all, for time and savings

deposits, where the percentage originating within the four-county area is 81.4 per cent, that the most important market for Philadelphia National Bank at the present time for deposits of this type is the four-county area?

A. I think we have to break that down, Mr. Reycraft. I can't——

Q. Can you give me an answer for the category as a whole based on the percentage which I have read to you? [fol. 3589] A. I would have to say no, as a whole.

Q. 81.4 per cent doesn't make it the most important market for Philadelphia National?

A. Well, I am thinking about time deposits.

Q. Time and savings deposits, where 81.4 per cent of all of Philadelphia National Bank's deposits of this type originate within the four-county area, my question is, don't you agree that this is the most important market for the Philadelphia National Bank at the present time?

A. So far as savings, yes. So far as time accounts, I am not sure.

Q. As far as this category which you have included in the exhibit, over-all, don't you agree that the four-county area is the most important market?

A. This is what the exhibit says here, but in the light of what has developed since with time accounts, I am not so sure that our——

Q. At the time the exhibit was made up——

Mr. von Starck: Let him finish his answer, will you, Mr. Reycraft?

A. —I am not sure that our most important chance for increasing time accounts is in the local area.

[fol. 3590] Q. On the basis of the facts contained in this exhibit, however, as of the time of Exhibits D-41 and D-30, isn't it a fact that the four-county area is the most important market for the Philadelphia National Bank for time and savings deposits?

A. Well, this is what the statistics say what they were then.

Q. Is your answer yes?

A. No, it is not. I qualified my answer on that so far as time accounts were concerned, in view of what has happened in the money market.

Q. As of June, 1960, was it the most important market?

A. Well, with the money market the way it was at that time, yes.

Q. Will you turn to page 3 of D-41, under "III. Loans" you indicate that in your opinion the market area for real estate loans is the whole United States. Can you tell me what the basis for that conclusion is.

A. Well, since we do a lot of construction loans, it is very clear that the permanent take outs, I think I explained before, come from savings institutions and insurance companies outside of our area.

Q. Did you examine any statistics in reaching this [fol. 3591] conclusion?

A. No, I did not.

Q. D-30 indicates that 74 per cent of the real estate loans of the Philadelphia National Bank originate within the four-county area. Would you agree with me that as far as the Philadelphia National Bank is concerned, the four-county area is the most important market for real estate loans?

A. No, I can't agree with that because in real estate loans these loans are generated here but they are sold all over the country.

Q. Forgetting the real estate loan business, which D-30 indicates originates in the four-country area to the extent of 74 per cent, don't you agree that the four-county area is the most important to the Philadelphia National Bank?

A. Let me try to see if I can clarify this. So far as we are concerned with our bank, with the savings at the level they are, we are not interested in making real estate loans too far away from the four-county area. Now, other institutions, from Bowery Savings——

Q. My question was directed to the market for the Philadelphia National Bank. I am not talking about Bowery Savings or Philadelphia Saving Fund Society or any other [fol. 3592] institution but Philadelphia National Bank. Isn't it a fact that the four-county area is the most important source of its real estate loan business?

A. Oh, yes, yes.

Q. And by indicating that the United States is the appropriate market area for that type of function you don't

mean to indicate that it is the most important market area of the Philadelphia National Bank, do you?

A. You mean so far as us competing in the United States for mortgages outside of our four-county area?

Q. Yes.

A. No.

Q. Would I be correct in understanding that what it means is that there is transfer of real estate mortgages throughout the United States among financial institutions?

A. Well, what normally happens, in big construction projects there has to be a permanent takeout. That is usually taken by some long-term lender, and they can be anywhere in the United States and the project can be in Philadelphia.

Q. So that the Philadelphia National Bank might sell the mortgage to an institution elsewhere in the country?

A. It is possible.

[fol. 3593] Q. And that is what you intended to convey by the description of the market area as being the United States?

A. Yes. We were trying to point out, I think, that when permanent financing is arranged in Philadelphia our competition is not just locally, it is the United States.

Q. But as far as your actual experience, 74 per cent of this business has originated in the four-county area?

A. That is right, mostly residential mortgages in our area.

Q. Now, in category 4 on the same page, loans to farmers, you indicate that the market area is Delaware Valley. I assume once again that this market area conclusion was not reached on the basis of statistics; is that correct?

A. I think it was based on fact, because if my memory serves me right, we have one loan to one farmer up in Bucks County, and the farm is over in New Jersey.

Q. Well, D-30 indicates you have $200,000. Is that one loan?

A. I think so.

Q. And Exhibit D-30 indicates that that loan originates [fol. 3594] within the four-county area, so I assume the basis for your conclusion on D-30 was the residence of the borrower.

A. I think that is what has happened. It is over in Jersey——

Q. The borrower is in Montgomery County and the farm is in New Jersey?

A. No, the borrower is in Jersey. If this is the one I think it is, the borrower is in Jersey and the bank is in the four-county area.

Q. The farm is in the four-county area?

A. No, the farm is in New Jersey.

By the Court:

Q. The land is in New Jersey and the borrower is in Bucks County; is that it?

A. Well, no, maybe I am confused.

The Court: Well, I am.

The Witness: I know we have one large farm loan up in Bucks County. This is not particularly my field.

By Mr. Reycraft:

Q. Did you say the farm is in Bucks County?

A. No. We have one farm loan up in the Bristol office of our bank, and, as I recall, the farm is over in New [fol. 3595-3596] Jersey around Burlington or some place.

Q. The farmer is also over there?

A. The farmer is also over there.

Q. Your bank office which made the loan is in the four-county area?

A. Yes, that is right.

The Court: We can't get through in the next ten or fifteen minutes, I am sure.

Mr. Reycraft: No, sir.

The Court: We will conclude for the week, then, and we will convene on Tuesday morning.

(Adjourned at 12:35 P.M. until Tuesday, July 25, 1961, at 10:00 o'clock A.M.)

[fols. 3597-3598] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWENTY-SECOND DAY

Philadelphia, Pa., July 25, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 3599] JOHN McDOWELL, resumed.

Cross-examination (Continued)

By Mr. Reycraft:

Q. Mr. McDowell, will you refer to page 4 of D-41.

A. Yes, I have it.

Q. Can you tell me what the basis was for your conclusion that the appropriate market area for small and medium commercial and industrial loans is Delaware Valley?

A. The basis for this was my experience in Philadelphia and as a lending officer for many years. I know this is our competition.

Q. Will you refer to D-30, the third page, category 5, where the percentages of the Philadelphia National Bank of commercial and industrial loans under $50,000 outside the four-county area is set forth.

A. Yes, I have it.

Q. Now, Mr. McDowell, referring to the fifth category on page 3 of loans, that indicates [illegible] it not, that commercial and industrial loans under [illegible]00 of the Philadelphia National Bank represented 75.2 per cent of all of its loans in that category?

A. Within the four-county area under $50,000, yes.

Q. You did not rely on any of these figures, I take it, [fol. 3600] in reaching your conclusion?

A. No, I did not see these figures when I reached my conclusion.

Q. Will you agree with me now that so far as the category we have been discussing is concerned, that the four-county area is the most important market area for the Philadelphia National Bank?

A. I think so far as located of customers is concerned, and particularly with the small businessman, which I think was made clear in previous testimony by Mr. Brown and myself, our wholehearted desire to service the small businessman, the small business borrower, in the four-county area, I think that, yes, the four-county area is probably our most important. Now, bear in mind, however, they still have alternate choices, obviously.

Q. I understand your testimony to be, then, that the four-county area in the under $50,000 category is the most important market area for the Philadelphia National Bank?

A. For the small businessman, yes.

Q. For the category under $50,000?

A. That is right.

Q. In the category from $50,000 to $500,000 the percentage which the Philadelphia National Bank has inside the [fol. 3601] four-county area is 64.3 per cent. Would you also agree with me that for this category the most important market area for Philadelphia National Bank is the four-county area?

A. No.

Q. Would you explain that.

A. Well, you will notice, Mr. Reycraft, the breakdown here is from $50,000 to $499,000.

Q. That is right.

A. I consider the small business loan ranging up to $150,000, $175,000, $200,000. Those above that have wide choices outside the four-county area, so I am not sure I could agree with that.

Q. Do you have any statistics to bear out that conclusion?

A. No, I do not.

Q. So far as the statistics which are shown on D-30,

will you agree with me that the 64.3 per cent of business which the Philadelphia National Bank now does in that category in the four-county area represents the most important part of its business in that category?

A. Only so far as location of the customer is concerned, yes.

Q. It represents the most important part?

[fol. 3602] A. Only so far as the location of the customer is concerned.

Q. As I understand these percentage figures, they are the total dollar volume of these loans; is that correct?

A. That is right.

Q. So that 64.3 per cent of the total dollar volume on these loans are in the four-county area; is that right?

A. That is right. That is, the customer is located in the four-county area, and this is based on where the customer is domiciled, that is correct.

Q. And as far as you know, this is where the business comes from?

A. Yes.

Q. And you agree that this is the most important source of business for the Philadelphia National Bank for loans in this category?

A. Well, this is what the record statistics say here now, but my point is——

Q. You don't agree with these statistics?

A. Well, this is what the statistics say.

Q. Do you or do you not agree with these statistics?

A. No, I make this point, that there are——

Q. Can you answer yes or no?

A. No, I can't answer yes or no.

[fol. 3603] Q. All right, go ahead.

A. I make this point that I think in this category above $175,000 or $200,000 there are other markets available to these borrowers, and it is their choice not ours. Now, we try to keep them here. I agree with that.

Q. This is potential competition?

A. That is right.

Q. You heard Dr. Harris' testimony, didn't you?

A. Yes.

Q. And that is potential competition rather than——

A. It is real competition.

Q. It is real competition, yes, it is, but, nevertheless, isn't it a fact that the most important source of business for the Philadelphia National Bank for loans in this category is the four-county area?

A. Based on these statistics and based on the location of the customer, this is what this says.

Q. And you agree that is a fact?

A. Well, I agree that the statistics are right.

Q. And you agree that it is the most important source of your business?

A. I tried to explain, Mr. Reycraft, that I don't think that can be categorically answered, because these customers of ours do have many choices.

[fol. 3604] Q. As far as the choices which they actually exercise——

A. This might be true. We try to make it attractive enough so that they stay with us.

Q. And you have succeeded, haven't you?

A. I think, based on these statistics, we have.

Q. To the extent that this is the most important source of business for your bank in this category?

A. Sir, I tried to answer it the best I can.

Mr. Reycraft: I might point out that this is a defendants' exhibit and not a Government's exhibit.

Q. Mr. McDowell, for the over-all category of commercial and industrial loans as shown by D-30 the amount of business which the Philadelphia National Bank obtains from within the four-county area is 53.8 per cent. Would you agree that the four-county area is the most important source of business for the Philadelphia National Bank for commercial and industrial loans?

A. Mr. Reycraft, if you will look at the breakdown here, $500,000 loans and over, we show 52 per cent outside the four-county area. That is a pretty large total, and there again these customers have all sorts of choices throughout the entire United States.

Q. My question is, for the entire category of commercial and industrial loans D-30 shows 53.8 per cent within the [fol. 3605] four-county area. Do you agree that this is the most important source of business of this type for the Philadelphia National Bank?

A. Well, now, this is what this shows, but I must make the point that, particularly on the larger loans, they have many choices other than Philadelphia National Bank. We try to keep as much of the larger loans as we possibly can here through good service, broad lending policy, and proper competitive rates.

Q. As far as the source of business which your bank actually gets, for whatever reason, isn't it a fact that the most important source is the four-county area?

A. Well, the location of our customers is in the four-county area, and based on this the 53.8 per cent came inside the four-county area, of all of our customers, but if you will look at these percentages, Mr. Reycraft, the smaller loans, you notice, were 24.8 outside. Then the mobility develops as you get into the larger loans. 35.7 were outside. When you get into the $500,000 and over, 52.4, which shows the mobility of these people to bank wherever they want to bank and get their loans wherever they want.

Q. For the over-all category, however, isn't it a fact that the most important source of the business of your bank is [fol. 3606] the four-county area?

A. Well, based on these statistics, we have more loans in the four-county area as of this date than we do outside.

Q. And it is therefore the most important source of your business?

A. Well, I won't accept that.

Q. Do you have any figures which show the loans which originate in the six counties of the ten other than Philadelphia, Bucks, Delaware, and Montgomery?

A. No, I do not.

Q. Do you know for any of these categories the loans or deposits which originate in the other six counties?

A. No, I do not.

Q. And you didn't rely on any statistics of this type in reaching your conclusion?

A. I did not.

Q. For example, in making a distinction between the Philadelphia metropolitan area and the Delaware Valley, you had no statistics of this type that you relied on, did you?

A. I did not.

Q. Now, with reference to loans to individuals, category 6a through d on page 3, it shows that 75.2 per cent of these

[fol. 3607] loans originate within the four-county area. Can you tell me what the basis was for your conclusion that the appropriate market area is the Delaware Valley?

A. 6e?

Q. 6a through d, loans to individuals, installment.

A. Well, these are loans principally for home modernization, appliances, automobiles, and since many times the financing is arranged through dealers, and the people around the four-county area have freedom of action to buy in the whole trade area, we felt that their opportunities for financing these individual appliances rested in the Delaware Valley.

Q. Now, who is "we"? Who participated?

A. Excuse me. I did.

Q. You did?

A. Yes.

Q. Entirely on your own?

A. Mr. MacLaren and I did this together.

Q. And that is all who participated?

A. Yes.

Q. Only you and Mr. MacLaren?

A. That is right.

Q. And you and Mr. MacLaren prepared the Exhibit D-41?

A. Yes. The first I saw the exhibit he had it partially [fol. 3608] prepared, and I completed it, supervised it from that point on.

Q. You don't know who prepared D-30, I assume?

A. No, I do not.

Mr. von Starck: Mr. MacLaren testified that D-30 was prepared under his supervision.

Mr. Reycraft: I remember.

By Mr. Reycraft:

Q. Now, Mr. McDowell, you had no facts, if I can summarize your testimony as I understand it, to distinguish between the four-county area and the ten-county area with reference to 6a through d, loans to individuals, and so on?

Mr. von Starck: May I ask if this question is limited to statistical facts?

By Mr. Reycraft:

Q. You state any facts that you relied on, Mr. McDowell.

A. I did this from my own personal experience and judgment.

Q. Would the same answer then apply to 6e, loans to individuals—single-payment?

A. Yes.

Q. And D-30 shows, does it not, that in that category 76 per cent of the business of the Philadelphia National Bank [fol. 3609] originates within the four-county area?

A. It does.

Q. And you don't know how much originates in the other six counties which go to make up the ten-county area?

A. I do not.

Q. Do you have any statistical information on which you relied for your conclusion, the various conclusions you have set forth in column C on D-41, competition other than commercial banks?

A. In which category?

Q. Any of them.

A. None except what we read from the Federal Reserve Bulletin.

Q. Do those figures show anything with reference to the amount of competition in the Delaware Valley?

A. Not Delaware Valley.

Q. Or in the four-county area?

A. No.

Q. Now, can you tell me, with reference to category 7 on D-41, all other loans, what was the basis for your conclusion that the appropriate market for all other loans in the United States?

[fol. 3610] A. Well, you will recall that this is the catchall category and principally includes financing of churches, hospitals, and educational institutions, and from my experience it seemed very clear to me that we had no captive market in the four-county area for this kind of loan.

[fol. 3611] Q. Did you use any statistics?

A. No.

Q. Do you know how much of the business of this type originates within the ten-county area?

A. No. I do not.

Q. And you don't know how much originates within the four-county area?

A. Total origination in the four-county area or just—

Q. Of Category 7.

A. All the business that originates or just what we do?

Q. What your bank does.

A. Oh, I did know that we had this much outside when I made up the United States.

Q. Did you examine the statistics which were offered as part of the Government's case in the first or the early exhibit numbers?

A. No. I did not.

Q. And you never made any inquiry about it?

A. No.

Q. You didn't think it was important in reaching these conclusions on market area and competition to inquire into the figures as to the source of the business?

A. Well, Mr. Reycraft, having been in the banking business for 38 years in Philadelphia, this is what we think the [fol. 3612] Philadelphia competition is.

Q. And the statistics show that perhaps you weren't right?

A. I haven't seen any statistics that show that I am wrong.

Q. All right.

Now with reference to total loans, as shown on D-30, Exhibit D-30 indicates, does it not, that 51.9 per cent of all the Philadelphia National Bank's business originates within the four-county area?

A. Yes, it does.

Q. Would you agree that as far as the Philadelphia National Bank is concerned, the four-county area is the most important source of its gross loans?

A. No. I will not.

Q. You don't think 51.9 per cent is the most important part?

A. I think this is a pretty representative total here, and, as I have made the point, many of our areas of these categories here have other sources that they can go to and they are not captive of our area banks.

Q. Isn't the reason for your answer, because they are not captive to your bank?

A. No. I think that they have alternate sources, and, therefore, have the right to choose; and that doesn't particularly make it our important source.

Q. And you don't agree that the sources, the geographic area from which you get 51.9 per cent of your business, are [fol. 3613] the most important source of your business?

A. Well, statistically, I think it indicates that.

Q. I might point out also that Table 22, which is Government's Exhibit 22, indicates that 63 per cent by number of all loans in this category originate within the four-county area.

Would you like to examine that?

A. I would not be surprised because, based on the kind of service we try to give to our small customers, why, obviously, the numbers are very great.

Q. Mr. McDowell, do you have a copy of D-43 with you?

A. Yes, sir.

Q. Now, will you refer to the footnote which begins with the word "Source"?

Now, can you tell me what records of the defendant were used as the source for this exhibit?

A. Yes. We went through our IBM cards showing all depositors having accounts over $100,000. Then we went through our cards showing all borrowers having either loans or lines of credit of $500,000 or more.

Then we went through and talked with our control officers——

Q. With whom, please?

[fol. 3614] A. One of my associates—I didn't do this personally. They made up cards for me.

—went through our credit records and also, if they had any doubt at all, to the control officer to find out if they had other banking relationships outside of Philadelphia.

Many times our credit records show whether or not their headquarters or major branch or an important subsidiary is outside of the ten-county area; and also our credit records show whether or not our customer is a subsidiary of a company located outside the ten-county area.

They made up cards showing all of this information.

Q. So that Category (b) has, "Known banking connections outside of the ten-county area"; and that is known to whom, if I may ask?

A. That is known in our credit files, where we know they have lines of credits and deposits outside; and many times the credit officers, from their own personal knowledge, know whether or not their customers have outside banking connections.

Q. The credit officers know it on the basis of some discussions they have had or their experience?

A. Negotiations with other banks in previous loan arrangements.

[fol. 3615] Q. But it is not necessarily incorporated in the business records of your bank?

A. Well, many times it would be. Sometimes it would not be complete.

Q. And in those cases where it is not complete, you relied upon the knowledge of the control officers?

A. That's right.

Q. Did you make any analysis for the Delaware Valley as distinguished from the four-county area?

A. No. We did not.

Q. Will you explain to us what this exhibit is intended to convey?

The Court: Are you talking about forty——

Mr. Reycraft: D-43, Your Honor.

The Court: D?

Mr. Reycraft: D, D-43.

The Witness: This exhibit portrays the amount of business that we have in demand deposits of partnerships and corporations and commercial and industrial loans outside of the four-county area.

Then it also (the second item here, Mr. Reycraft) shows the 153 customers we have within the four-county area which we think are national-character customers, that they do not have to do business in the four-county area. Their [fol. 3616] credit standing is such, their deposits are such, their services are such, and their loan requirements are such that they have freedom of action to go any place in the United States to get their banking.

Q. Now, was this exhibit prepared under your direction?

A. The customers located outside the four-county area was.

Q. Do you mean the selection of the names of the customers?

A. Yes, definitely mine.

Q. And as to the rest of the exhibit, was it prepared under your direction?

A. No. I think the—well, the customers located within the four-county area was a statistical figure that I did not supervise—within the four-county area.

Outside the four-county area——

Q. Who furnished those figures to you?

A. One of my associates.

Q. Do you recall his name?

A. Bill Whiteford.

Mr. von Starck: He does know it. You are asking him D-30, which is the exhibit you were cross-examining on.

Mr. Reycraft: He doesn't seem to know that.

Mr. von Starck: He does know it. You are asking him underlying that.

[fol. 3617] The Witness: Sorry.

By Mr. Reycraft:

Q. So that as far as the companies selected are concerned, they are based on the opinions of you and of the associates who worked with you on the exhibit?

A. No, outside the four-county area it was my opinion alone.

Q. Your opinion alone?

A. Yes.

Q. Can you tell me what statistical information you relied upon to reach that opinion?

A. Personal knowledge and their deposits and long-time relationships we have had with them.

Q. Your background and your experience?

A. That's right.

Q. Mr. McDowell, do you have D-40 with you?

A. D——

Q. D-40?

A. No. I don't believe I do.

The Court: Do you have the key with it?

The Witness: This is the Girard?

Mr. Reycraft: Yes. I realize that.

I also hand you D-26 revised of the Philadelphia National Bank. You may look at both of them.

The Witness: Yes, I do have a copy of this. I didn't know [fol. 3618] what is was. I think I do have a copy of this.

By Mr. Reycraft:

Q. Mr. McDowell, let me ask you, do I understand your testimony to be with respect to D-26 that these companies would open large lines of credit or might do so if the proposed merger of the banks might go through?

The Court: Read the question back.
Your voice is falling.

(The pending question was repeated by the reporter.)

The Witness: I testified that some of those would.

By Mr. Reycraft:

Q. I want to refer you, Mr. McDowell, to No. 16, Customer No. 16 on D-26. I show you the key to D-26 so you will know the name of that customer.

A. Yes.

Q. May I have it?

A. No. 16?

Q. Yes, No. 16.

Now, is it your opinion that if the proposed merger is approved that customer will open a larger line with the combined bank?

A. He has a substantial line now with Girard Corn and he will take a larger line from the combined bank; that's [fol. 3619] right.

Q. You don't know, do you, whether he presently has a line with the Girard?

A. I am sure he has loans. I don't know whether he has a line.

I would be surprised if he didn't have a line. I would suspect he has a line and a loan, yes.

Q. Therefore, you don't know how much he would increase his total line from the two banks?

A. No, I do not. I don't know what their line is to this customer.

Mr. Reycraft: May I read into the record the amount of his line with the Girard, sir?

The Court: Do you have the Girard in front of you?

Mr. Reycraft: Yes, sir.

Mr. von Starck: He doesn't have the key, Your Honor.

The Court: Look at H.

The Witness: H? Yes, $5½ million for H.

By Mr. Reycraft:

Q. $5½ million?

A. Yes.

Q. So you would agree that if the banks were combined this customer would not be able to increase his total line of [fol. 3620] credit very much?

A. He would be able to.

Q. How much?

A. A million and a half.

Q. And that is pretty substantial, is it?

A. That's right.

Q. Now with reference to Customer No. 17 on D-26, do you know whether that customer has a line?

A. Yes. At Girard?

Q. Yes.

A. Yes, it has.

Q. Do you know how much?

A. No. I do not.

Q. And you don't know how much that customer would be able to increase its line if the banks were to combine, do you?

A. No, because, remember, that's the one that has the V loan and you have to work out the arithmetic as to how much is guaranteed to know how much more we could give them in the combined bank.

Q. His existing loan with the Girard is $4 million.

A. Well, some of that is the V loan, I would guess.

Q. At the Girard?

A. At the Girard, I don't know, but we have part of the [fol. 3621] V loan and the other principal banks have part of the V loan and I would be surprised if Girard didn't have

a part of the V loan; so that part of their loan would be guaranteed and that part, as you know, which is guaranteed is not part of your legal lending limit.

Mr. von Starck: Your Honor, I don't think it is fair to cross-examine this witness along this line unless he is given the key to the Girard exhibit.

Mr. Reycraft: I don't object to him having a key to the Girard exhibit.

Mr. von Starck: Do you have an extra one? I don't have any.

Mr. Reycraft: I have one, which is all that was given to me. Does Girard have a copy?

The Court: Look at AA.

The Witness: AA?

The Court: At the bottom of the sheet.

The Witness: Yes. AA, Mr. Reycraft, is $4 million, but I have no knowledge of how much of that is V loan.

By Mr. Reycraft:

Q. If part of it is V loan, then he could increase his loan limit at the present time by an amount greater than $2 million, couldn't he?

[fol. 3622] A. The exhibit doesn't show that any part of this is a V loan, does it?

Q. It just shows straight deposits and straight average loans.

A. That's right. I wouldn't know whether it is just a line of credit.

The Court: All right.

By Mr. Reycraft:

Q. Now, on those cases in D-26 where a V loan is involved, it is indicated in the footnote, is it?

The Court: It is on the Philadelphia National.

The Witness: The reason we did it there, Mr. Reycraft, is because we showed over our line. See, we had to explain, we thought, the fact that we were $9 million to this company, and it was due to the fact that we had a commitment on a V loan.

Now, Girard didn't necessarily have to do that because they are not in excess of their line.

By Mr. Reycraft:

Q. Now, will you refer to Customer No. 22 on D-26? I will show you the key so you will know who that customer is.

A. Yes, I have it here.

Mr. Reycraft: May I hand him the key to the Girard's exhibit?

[fol. 3623] Mr. von Starck: Yes.

Mr. Reycraft: Mr. Price?

Mr. Price: I have no objection.

The Court: What number?

The Witness: 22.

Mr. Reycraft: 22.

The Court: That is V on the other one, isn't it?

Mr. Reycraft: Yes, sir.

Mr. von Starck: What is that letter?

The Court: V.

Mr. Reycraft: V like in Victor.

The Court: V as in Vincent.

The Witness: Yes, sir, $5 million for V.

By Mr. Reycraft:

Q. So that company has $8 million with the Philadelphia National and $5 million with the Girard at the present time; isn't that right?

A. That's correct.

Q. So the maximum it could increase its lending limit after the merger would be $2 million?

A. That's right.

Q. And $1 million of that would be from the sale of new capital?

[fol. 3624] A. (No response.)

Q. By the combined bank; isn't that right?

A. No, oh, no.

The Court: Read the question.

The Witness: No, we are not selling any stock in connection with this merger.

By Mr. Reycraft:

Q. Transferred from undivided profits?
A. Well, that's right.

The Court: All right.

By Mr. Reycraft:

Q. Will you refer to Customer No. 24 on D-26?
A. Yes.
Q. Now, that customer has an $8 million line with the Philadelphia National Bank, does it not?
A. That's right.
Q. Will you refer to Customer I on D-40?
A. I? Yes.
Q. That is the same customer, is it not?
A. Yes.
Q. And it has $5.5 million with the Girard?
A. That's right.
Q. So that the most that customer could increase its lending limit would be $1.5 million?
[fol. 3625] A. That's right.
Q. And a million of that would be the result of the transfer from undivided profits?
A. That will be our new lending limit, yes.
Q. As a result of the transfer from undivided profits?
A. Yes, yes.
Q. Will you refer to Customer No. 1 on D-26, which is Customer A on D-40?
A. Yes.
Q. Now, that customer has a line of $8 million with Philadelphia National and $6 million with Girard, does it not?
A. That's right.
Q. So it has a maximum line from both banks at the present time?
A. That's right.
Q. And the increase in line after the merger would only be that million resulting from the transfer from undivided profits?
A. $1 million.
Q. Now, have any of these customers ever indicated to you that they are inconvenienced by having two banks rather than one for these lines of credit?

A. I don't think these customers have.

Q. Now refer to Customer 24 on D-26. Do you know how [fol. 3626] many lines of credit in how many banks that company has throughout the United States?

A. Customer 24?

Q. 24.

A. No, I have no idea.

Q. Would you say it would be in the hundreds?

A. I don't think it would be that big. This line——

May I explain in 24?

Q. Yes.

A. It might—they have an acceptance company here, a finance company, and we are one of the acceptance company's principal banks and there is need in Philadelphia for a $15-million line to take care of this acceptance company and their swings in commercial paper. I am sure I testified to that before.

Q. Yes. They now have $14 million combined line with the two banks; isn't that right?

A. Let me see.

The Court: I.

The Witness: No, they have $13.5 million.

The Court: Wait a minute. Maybe I made a mistake.

The Witness: I has—no. You are right, Your Honor, $13.5 million.

[fol. 3627] By Mr. Reycraft:

Q. $13.5 million is correct?

A. Yes.

Q. Now G-200, which is the answer of the Girard to Question 6 propounded by the Government, indicates that that customer has lines with 600 banks in the United States, so one bank more or less wouldn't really make very much difference, would it?

A. Well, I think those lines would be for the sale of installment paper. This is a mail-order house and they sell substantial paper to banks and I would be convinced that these are the banks to which they sell their installment paper.

Q. And they are lines of credit?

A. No, not necessarily.

Q. Well, you think Girard's answer to Question 6 may be inaccurate, in which they say 600 banks?

A. I don't know.

Mr. von Starck: Oh, I object to that. He has never seen that.

Mr. Reycraft: I will be glad to show it to him.

The Court: Is it a matter of great moment?

Mr. Reycraft: Not the precise number, no, sir.

Mr. von Starck: Your Honor, I don't see why this witness [fol. 3628] should be held in any way responsible or required to answer any questions with respect to evidence which has been submitted by Girard.

Mr. Reycraft: I have Philadelphia National's exhibit, which I will show him.

Mr. von Starck: That's fine.

The Court: If it shows 625, you will be sorry.

Mr. Reycraft: This is Government's Exhibit 245.

By Mr. Reycraft:

Q. Refer to No. 64 on Government's Exhibit 245 and without counting them you will agree that they are in the hundreds there, won't you?

A. It would appear so, yes.

I think this requires some explanation.

[fol. 3629] Q. Go ahead.

A. We have two lines to this mail order house, and I think these other banks, many of them, have lines, and one line covers the purchase of installment paper in which there is a cash reserve setup and the mail order house is not responsible. There is no contingent liability. That is one line you fix for purchase paper.

Then we have this other line which appears on our Exhibit D-26, which is used, as I explained before, by the acceptance company. One class of granting of credit comes under your legal limit, the other does not, and it makes a big difference.

Q. You don't know what D-40 shows, then, do you?

A. D-40? No, with Girard, I do not.

Q. Do you know what D-26 shows as far as the——

A. Yes.

Q. You testified earlier that you made these footnotes only

in those cases where you exceeded your legal limit; isn't that right?

A. Yes, we did.

Q. So that as to any of those that are $8 million or less do you know whether the same qualification applies?

A. Well, there may be.

Q. But you don't know?

[fol. 3630] A. I would have to analyze that, whether or not we purchased installment paper that doesn't come under our legal limit or whether or not we have a line of credit where they can borrow unsecured and be directly liable.

Q. And you haven't made that analysis?

A. Well, for instance——

Q. Can you answer yes or no?

A. Yes, I made the analysis. I know what they are.

Q. Tell me which ones, then, have secured paper in those lines?

A. Where we have purchased paper, installment paper?

Q. Right.

A. No. 19.

Q. How much?

A. The peak outstanding in 1960 was $20,325,000.

Q. The footnote on the exhibit indicates that, doesn't it?

A. Yes. That explains it, because we were above our $8 million.

Q. Do you know as to any of them which are $8 million or below?

A. Where we have purchased paper?

Q. Yes.

A. Yes. For instance, 24 is below $8 million, Mr. Rey [fol. 3631] craft, and we designate it there.

Look over under average loans for 1960 and you will see $2,713,000 C.P. That indicates to you that we have purchased customers paper.

Q. As to those which aren't indicated, do you know whether there is any commercial paper involved?

A. The only other one would be 26, where we do gas station financing for the owner of the station with the guarantee of the oil company.

Q. And that is not indicated by a footnote, is it?

A. No, but it is indicated by the amount outstanding here.

Q. Does it indicate that he could have a higher line of credit than is indicated on the exhibit?

A. I know this, that on purchased paper we can go above our legal limit.

Q. My question is, could 26 have a higher lending limit than is indicated on the exhibit?

A. $8 million? No. We could have a higher amount outstanding——

The Court: Are you asking, does he have credit which would justify loans in excess of $8 million? That is the connotation I drew out of your question.

[fol. 3632] By Mr. Reycraft:

Q. Due to the fact that there is commercial paper involved, could you have a higher lending limit than $8 million, higher line?

A. No. We could buy commercial paper much above the $8 million, but the amount we can take on direct obligation from him is $8 million, and this would be one company we would be delighted to give our full lending limit to.

Q. Mr. McDowell, does your bank compete with other banks in Philadelphia for the business of these national bank customers?

A. National?

Q. National customers.

A. Yes, we do.

Q. You do compete with the other banks?

A. Yes.

Q. Which other banks in Philadelphia do you compete with for that business?

A. First Pennsylvania, Girard Corn, Provident Tradesmens, Fidelity-Philadelphia Trust, Central Penn.

Q. Are there any others?

A. I think Broad Street Trust to a lesser degree, Liberty Real Estate to a lesser degree.

[fol. 3633] Q. And they are in active competition with you for the business of national customers?

A. I think the first five that I mentioned are very active.

Q. And you think that the lending limit is an important factor in getting this type of business?

A. Yes.

Q. And you think that a higher lending limit would give you a competitive advantage over these banks?

A. It would be one of the tools we would use to try to bring them to our bank.

Q. You would certainly use it, wouldn't you?

A. We would use the tool.

Q. And it would give you a competitive advantage over the other banks?

A. I said we would use the tool.

Q. You can't answer my question yes or no?

A. No, I can't.

Q. You don't know what a competitive advantage is?

A. Yes, I do, but I think this would be—this is a whole relationship, not just a lending limit, and that would be one of the things that we would——

Q. That isn't the most important factor?

A. I think it is an important one. I don't say the most [fol. 3634] important one.

Q. Fairly important?

A. Well, reasonably.

Q. Would you say it would give you a substantial competitive advantage over these other banks?

A. I think it would be helpful in soliciting.

Q. You might get some business you might not otherwise get by having a higher lending limit; isn't that right?

A. I hope that is right, yes.

Q. And some of it might come from these other banks?

A. I didn't say that.

Q. You don't think it would?

A. No. If they have relationships with these customers now, I am not sure they are going to change to us just because we have a higher lending limit.

Q. So the lending limit might not succeed in getting that business?

A. Away from them and bringing new business into Philadelphia, so that we get up into the status where we compete with——

Q. You think a higher lending limit would help you with the Detroit banks and not with the Philadelphia banks; is that right?

[fol. 3635] A. I think this, Mr. Reycraft, that, looking ahead here, the banking business is going to have giants in

New York, Chicago, the West Coast. I think they are then going to have——

Q. These giants are now getting business away from you, aren't they?

Mr. von Starck: Wait a minute.

Mr. Reycraft: He is not answering my question.

Mr. von Starck: Let him finish.

Mr. Reycraft: Read my question, please.

(The reporter read as follows:)

"Q. These giants are now getting business away from you, aren't they?"

Mr. Reycraft: Read my previous question, please.

(The reporter read as follows:)

"Q. You think a lending limit would help you with the Detroit banks and not with the Philadelphia banks; is that right?

"A. I think this, Mr. Reycraft, that, looking ahead here, the banking business is going to have giants in New York, Chicago, the West Coast. I think they are then going to have——

[fol. 3636] "Q. These giants are now getting business away from you, aren't they?"

Mr. von Starck: Wait a minute. I have an objection.

Mr. Reycraft: With reference to my first question, will you answer my question yes or no.

The Court: Just a minute. If there is an objection, wait.

Mr. von Starck: I think this witness is entitled to finish his answer when he is asked a question and he is responding to it. Every time Mr. Reycraft gets an answer he doesn't like he immediately breaks in.

The Court: I will be the judge of that, Mr. von Starck. You object to it on the ground that he is not permitted to finish his answer?

Mr. von Starck: Yes.

Mr. Reycraft: And my position is it is not responsive.

The Court: Well, I think we better start all over again, because I think both questions are so garbled at this point that we better start all over again.

I will sustain the objection to both questions and throw out the answers and we will start all over again.

[fol. 3637] By Mr. Reycraft:

Q. Do I understand, Mr. McDowell, that you think a higher lending limit would help you in competition with the Detroit banks but not with the Philadelphia banks?

A. I think it would help us more with the banks that have larger lending limits than it would with the banks that have lower lending limits?

Q. Do you think it would help you get some business away from Philadelphia banks?

A. I am not sure that that would do it.

Q. You hope so?

A. I don't know. This would not be our target for the new lending limit. It would be other areas other than trying to get the customer of Detroit that deals with First Pennsylvania. We are not at all confident we can drag him away, but we think that customers throughout the country might be attracted to Philadelphia as they are to Pittsburgh and Boston because of the attractive lending limit in Philadelphia.

Q. You think you will have a harder time getting the business away from a local bank with a $7 million lending than you will getting it away from a bank with a $20 million [fol. 3638] lending limit?

A. I think if the bank in Philadelphia already has the account, yes, we would have a harder time.

Q. So that a lower lending limit wouldn't prevent them from keeping the business?

A. Well, if they have had a long-time relationship, I am not sure they are going to change to our bank in the same city to take care of their banking in this city solely because of an increased lending limit in one bank.

The Court: We will take a ten-minute recess.

(A 10-minute recess was taken at 11:00 o'clock A.M.)

By Mr. Reycraft:

Q. Mr. McDowell, with reference to national customers who open new lines of credit in the Philadelphia area, do you

believe that your combined lending limit that would result in the merged bank would give you a competitive advantage in obtaining that business over other Philadelphia banks?

A. I think it would be one of the valuations the customer would make in coming to Philadelphia, particularly for a large customer that needed a large line. For a customer that [fol. 3639] would be handled by a smaller line than $8 million or $7 million, I think he would have freedom of action to go wherever he thought he could get the best service.

Q. And it would therefore give you a competitive advantage?

The Court: That is a conclusion which he does not have to answer.

By Mr. Reycraft:

Q. Now, Mr. McDowell, will you refer to D-43. You assumed, did you not, with reference to the first line of figures, that is, customers located outside the four-county area, that all customers located outside the four-county area are in the national market?

A. Yes.

Q. So that if a customer of your bank was located in Camden, New Jersey, you assumed that he was in the national market?

A. Based on this exhibit, that is right.

Q. Well, the exhibit is based on your study.

A. No. You will recall that $140,977,000 was taken from, as Mr. von Starck pointed out——

Q. D-30?

A. From D-30.

[fol. 3640] Q. So that the fact that customer is located in Camden County was sufficient, in setting up D-43, to place him in the national market, in your opinion?

A. Yes.

Q. And the title of the exhibit indicates that these are customers whose choices include banks outside Delaware Valley, which is the ten-county area; is that right?

A. That is right.

Q. So the fact that the customer is located in Camden was sufficient to indicate to you that he had choices outside Delaware Valley; is that right?

A. I think that is right, yes, sir.

Q. And this conclusion was also based on your background and experience, was it?

A. Yes.

Q. And you had no statistical information other than what is shown on D-43?

A. None.

Q. How big a bank do you think you would need to compete with the giants you referred to earlier in your testimony?

A. May I tell you what I started to tell you?

Q. Go ahead.

[fol. 3641] A. As I see this developing, I think there are going to be giants in New York, Chicago, the West Coast.

The Court: What do you call them now? Pigmies?

The Witness: I think there are going to be other large regional banks—Detroit, Boston, Cleveland, Pittsburgh. There will be area banks that will cover smaller geographic regional areas, and then there will be the unit bank—all of which I think have a purpose in our economic development here.

I think in this case we are at the crossroad—whether or not Philadelphia is going to be limited to an area bank as this country grows and requires more in the way of services and loans, and that in order for us to be in that second grouping with Detroit, Cleveland, Pittsburgh, Boston, that we should have a larger bank in Philadelphia so that we can compete with the second group banks and better compete with the giants in the larger cities.

Q. Do you think that your $15 million lending limit is going to be enough?

A. I think it is going to be very effective, yes.

[fol. 3642] Q. Despite the fact that some of these banks you refer to have lending limits of $20 million and $25 million?

A. Yes, but $15 million, even with the large ones, is a very respectable lending limit.

Q. With reference to the limitations on your bank's ability to compete regionally, isn't it a fact that state law, and the state policy embodying that law, is an important limiting factor as to branching?

A. Oh, branching? As to branching?

Q. Yes.

A. Yes. State law prohibits branching. I am not talking about branching.

Q. But as far as branching is concerned, state policy limits you to the four-county area?

A. Oh, yes.

Mr. Reycraft: That is all.

Redirect examination.

By Mr. von Starck:

Q. Will you turn again to D-43. Will you point out where the $140,977,000 of demand deposits of partnerships and corporations that appears on D-43 as being from customers located outside the four-county area appears on Exhibit D-30?

[fol. 3643] A. That appears in item No. 2 there under demand deposits, partnerships and corporations, total PNB, $141 million.

Q. That is page 2 of Exhibit D-30 and it is under item 2 there; is that correct?

A. That is right.

Q. Going down that same line on D-43, you will see that the total demand deposits of partnerships and corporations is there stated to be $414,785,000. Where does that appear on Exhibit D-30?

A. Oh, it appears under 2 on the second category there, total PNB demand deposits, partnerships and corporations, $414,800,000.

Q. Moving over to commercial and industrial loans on D-43, where does the $141,547,000 of commercial and industrial loans to customers located outside the four-county area appear on D-30?

A. Well, that appears under item 5, outside the four-county area, PNB, $141,500,000.

Q. Where does the total commercial and industrial loans for partnerships and corporations appearing on D-43, that is, $306,329,000, appear on Exhibit D-30?

A. That appears in the next total, the next line to the right, under PNB, total $306,300,000.

[fol. 3644] Q. You have been asked by Mr. Reycraft certain questions as to the way in which information with regard to the demand deposits and the loans of customers located inside the four-county area who were not limited to a choice of banks in the ten-county area was prepared. Do you remember those questions?

A. Yes, I do.

Q. I think you testified that the list was made up for you of all customers who met this qualification here in the footnote. What did you do on receiving that list?

A. They were made up cards, every customer meeting these qualifications. I went over these cards many times, and in order to be very conservative, I threw out many customers both in our branch system and customers in our main office and some that I knew personally and handled personally. My principal reason for throwing them out was that I didn't quite think they met the credit standards to be national companies. I honestly think that this figure of 153 companies is a very conservative figure.

Q. Did you apply standards in effect other than those which appear in that footnote?

A. Yes, I did.

[fol. 3645] Q. And they were more strict standards?

A. Stricter, that is right.

Q. What can you say with respect to the possibility of their being national type customers which do not or did not in September of 1960 carry a $100,000 deposit balance?

A. I think there are many customers not listed in these 153 which would be attractive in the national market and obviously are being solicited by our competitors from out of the four-county area.

[fol. 3646] Q. Now, you said with respect to customers of this type, the merged bank would be in competition with other banks in Philadelphia to solicit this type of business or to hold this type of business; do you recall that?

A. Yes.

Q. What other banks in the United States would the merged banks be in competition with for this type of business?

A. For the 153 customers?

Q. Yes, sir.

A. All of the major banking centers have solicitors here.

I don't think they just work on the accounts that have $100,000 or above. I think they work on any account that would be profitable; and in calling on some of our customers we see large stacks of calling cards, and these customers are attractive in the national market.

The other test I did apply, Mr. von Starck, was that I said to myself, "Would these customers that we would have on our prospect list to call on in Pittsburgh, Detroit, and Cleveland?"

And they were the ones that went on there.

Q. Mr. Reycraft took you through Exhibits D-30 and D-41 on a comparative basis.

What, in your opinion, is the relationship, if any, between Exhibit D-30 and Exhibit D-41?

[fol. 3647] A. You will recall I testified that I supervised the preparation of D-41 without having knowledge of the results on D-30.

In reading over the testimony over the week end you could see I acted pretty unintelligently in answering these questions on Friday because there is no connection, as I see it. One shows the location of our customers and the other that I prepared shows our market area and who competes with us in that market area; and I saw no connection between the two.

Q. What was your concept of the market area in D-41 as distinguished from the actual location of the customers shown in D-30?

A. Well, what I did in 41 was set forth the choices that our customers had in the various categories of deposits and loans, choices they had to go to.

Q. Now that you have been taken over the statistics on Exhibit D-30 have you seen any there which would cause you to change your opinion as expressed in D-41?

A. No. I have not.

Q. With respect to the relevant market area?

A. I have not.

Q. Which, in your opinion, is more important from the competitive position of the merged banks, that is, is it more [fol. 3648] important in the competitive position to be advised or to know the location of the customer or is it more important to take into consideration the geographical area in which the customer in question has a choice?

Mr. Reycraft: I object to the question as leading.

The Court: Let him finish.

Mr. Von Starck: Will you read the question?

(The pending question was repeated by the reporter.)

The Court: I sustain the objection.

By Mr. von Starck:

Q. In your opinion, is the information on D-30 more important than the information on D-41?

Mr. Reycraft: Oh, I object to that as leading.

The Court: Overruled.

The Witness: I have no doubt the information on D-41 is much more important than D-30.

Mr. von Starck: That's all.

Recross-examination.

By Mr. Reycraft:

Q. Mr. McDowell, you testified earlier, I believe, that the list which was used for D-43 was prepared by Bill Whiteford; is that right?

[fol. 3649] He was the one that helped me with it and these figures were on it when I—I furnished the second figure, not the first figure. I furnished this figure here.

Q. The figures indicated on the second line?

A. The first figure was on there when I saw it.

Q. The figures on the second line of D-43?

A. Yes. They were the figures that I worked on and furnished.

Q. But the list of customers was prepared initially by Bill Whiteford; is that right?

A. That's right. The cards were prepared, I sorted them out, based on an evaluation of whether or not I thought they were in the national market.

Q. And he prepared the list by reference to the standards referred to in the footnote entitled, "Source"; is that right?

A. As a basis for determining what might be considered in the national market; then I eliminated some of those from that.

Q. You applied additional standards?
A. Yes, I did.
Q. Are they indicated in the footnote?
A. No, they are not. They were personal feelings—discretion I had that some of our customers had substantial [fol. 3650] loans, some of them problem loans, and I didn't think they would be in the national market.
Q. So that all of the standards applied to the list of customers which were actually selected are not contained in the exhibit, are they?
A. Well, yes. These are contained in here, but some that qualified I took out.
Q. There are additional standards which were applied which are not indicated in the exhibit?
A. That's right; conservative standards.
Q. Now, you testified also, I believe, that you had no knowledge of D-30 at the time D-41 was prepared?
A. Yes.
Q. Is that correct?
A. Yes, sir.
Q. But D-43 is based in part on D-30, is it not?
A. Yes.

Mr. Reycraft: That's all I have.
Mr. von Starck: You are excused.
Mr. Littleton: Mr. Mason.

[fol. 3651] Albert T. Mason, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Mr. Mason, where do you live?
A. 1209 West Wynnewood Road, Wynnewood, Pennsylvania.
Q. What is your occupation?
A. Banker.
Q. By what bank are you employed?
A. Liberty Real Estate Bank & Trust Company.

Q. In what capacity?

A. President.

Q. How long have you been president of Liberty Real Estate Bank & Trust Company?

A. Since April, 1954.

Q. 1954?

A. 1954.

Q. And before that?

A. I was executive vice-president of the same bank, and prior to that vice-president and treasurer; prior to that vice-president.

Q. How long have you been in the banking business?

A. Since leaving high school; my entire working lifetime.

Q. Will you briefly sketch your experience in banking?

[fol. 3652] A. Yes. I started originally with the First National Bank as a clerk. I was there about a year and a half and went with a smaller bank, the Wyoming Bank & Trust Company, where I worked in every department of the bank, ended as vice-president, secretary, and treasurer.

From there I went to the Liberty Title & Trust Company as vice-president, and you have my experience from then on. I became vice-president and treasurer; then executive vice-president.

We merged with the Real Estate Trust Company and I became executive vice-president of the combined bank, and in 1954 I was made president.

Q. What is the present size of your bank, first, in terms of assets?

A. About $123 million.

Q. In terms of loans?

A. $59 million to $60 million.

Q. Deposits?

A. $109 million.

Q. Your capital and surplus and undivided profits?

A. As of June 30th, $10,300,000 some.

Q. What type of services does your bank offer?

A. We offer complete banking and trust services.

Q. I will put it this way:

[fol. 3653] Describe for us, if you will, the competition which your bank encounters in offering these services with respect to each service, if you can.

A. Well, I think it's complete and keen, not only from all the banks but from other financial institutions.

Q. Who are your competitors, first, in terms of commercial banks?

A. Well, I think they all are; the entire——

Q. You are talking about all in Philadelphia?

A. Yes.

Q. Do you have competition from anywhere outside Philadelphia?

A. Not to any extent. I would say we do not. We only have one office outside of Philadelphia, and that is on the very edge, at 69th Street.

Q. How about other financial institutions? Do you encounter competition from other financial institutions, other than the commercial banks in Philadelphia?

A. Oh, yes. The federal savings and loans are constantly seeking savings deposits, which we are quite interested in.

Q. What is the intensity of the competition which you receive from other commercial banks?

A. Well, I don't know what degree I should indicate, but it is constant. We feel that it is keen.

[fol. 3654] They constantly have new-business men on the streets calling on customers. Their advertising program is constant.

Q. Let's speak of it in terms of periods of time. How does the intensity of competition now compare with, we will say, ten years ago?

A. I think it's keener now than it was ten years ago.

Q. Well, during the past ten years, how has your bank fared in the face of this keener competition?

A. Well, we have been very fortunate. We had a continual and constant growth every year in resources, deposits, loans and earnings.

Q. Do you have any figures giving any comparisons of your assets and your growth in the last five or six years?

A. Yes. Our last annual published report covers from the time of the merger with the Real Estate Trust Company and our total resources have gone from $90 million to $123.5 million in 1960 from 1954.

Our deposits have gone from just under $80 million to $111 million.

Our loans have risen from $39 million to $64 million.

Our earnings have gone from $662,000 after taxes, our operating earnings, to $1,058,000.

[fol. 3655] Q. During this period from 1954 to 1960 was there any merger of any large bank in Philadelphia?

A. Yes. There were a number of them.

Q. In 1955 there was a merger of the First National with the Pennsylvania Company, was there not?

A. That's right.

Q. Were you aware of suffering any as a result of that merger?

A. No. It has been our experience that we have derived certain benefits from each of the mergers that have taken place in Philadelphia.

Q. What are those benefits?

A. Well, we have, without an exception, gotten new customers because of the merger; and, frankly, we step up our solicitation and competition each time there is an announcement of such a merger.

Q. What is your lending limit in your bank?

A. $726,000 to one customer, unsecured.

Q. Would you consider your customers to be what has been classified here as small or intermediate-sized customers for loans?

A. Very definitely.

Q. You are familiar with the proposed merger of the Philadelphia National and the Girard Trust Corn Exchange Bank, of course?

[fol. 3656] A. Yes.

Q. In your opinion, will that proposed merger have any disadvantageous effect on the competitive position of your bank?

A. I see no disadvantages whatsoever to our bank.

Q. Do you anticipate any advantages?

A. Yes. I hope to get some customers from them.

We have had a fine relationship on a correspondent basis and I am hoping that if the merger is successful and if they are successful in attracting new businesses (industry) into the community, that we, as one of the banks, will benefit in the over-all improvement in the economy through pay rolls and consumer purchases, and I also am hopeful that if they attract some of these national accounts they may permit we smaller banks to share in a participation on loans.

Q. Have you had that experience before with either of these existing banks?

A. Yes. We have participated with most of the banks in Philadelphia on loans.

Q. That is to say, when you have a loan which is over your limit, do you take it to one of them or is it——

A. We have only taken our loan applications that are in excess of our lending limit to the Philadelphia National [fol. 3657] Bank.

Q. Have they ever turned down such a request from you?

A. No; and that's the reason we have only gone to the Philadelphia National Bank. In my experience we have never been turned down on any requests that we have made for participation.

Q. Have you been included by the Philadelphia National Bank at any time in any of their loans?

A. Yes, we have. We have had part——

Q. How does that come about?

A. Well, I presume it's because it may be in excess of their lending limit that they have called us and asked us if we would take part of the loan; and we have taken it.

Q. Have you ever indicated to them that you had some excess funds available for lending?

A. Yes, I have.

Q. And have they let you in on some of their loans on that basis?

A. They have offered to let us participate in some of their large collateral loans and they have, when occasions come up—in fact, we have had one in the last three weeks in which they had a large application for a loan and they asked us if we wanted part of it; and we did take part of it.

Q. You have enjoyed this happy correspondent relationship with them for years?

[fol. 3658] A. When our bank was formed in 1885 Philadelphia National was chosen as our correspondent bank, our main correspondent; and they are still our main correspondent.

Q. You heard Mr. McDowell testify this morning, did you not, Mr. Mason?

A. (No response.)

Q. You heard Mr. McDowell?

A. Yes, indeed.

Q. And you heard him testify with respect to what he called from time to time "national customers."

Mr. Littleton: I am referring, Mr. Reycraft, to D-43.

By Mr. Littleton:

Q. I may state to you that these are customers that are partnerships or corporations which are located inside the four-county area of Philadelphia, Delaware, Bucks, and Montgomery, but who were not limited to a choice of banks in the four-county area; and the bases or criteria of selection were customers with deposit accounts in Philadelphia banks exceeding $100,000, and beyond that the criteria were that they also had a loan or a line of credit of $500,000 or had known banking connections outside the ten-county area or had headquarters, a main branch, or subsidiaries outside [fol. 3659] the ten-county area (being the Delaware Valley) or itself was a subsidiary of a company outside of the Delaware Valley ten-county area.

I ask you if that is a definition of national customer, do you make loans to any such companies?

A. Yes. We have a number of national accounts that deposit with us and also that we make loans to.

Q. With whom do you compete for the business of those depositors or borrowers?

A. Well, we compete directly with the Philadelphia banks, but I assume in a broad sense we are competing with a lot of large banks.

Q. Do you know that you are actually in competition with out-of-town large banks?

A. I would have to answer that this way—we know that they are here in Philadelphia and that they call on the same people that we have these accounts with.

Q. When you say "they," you mean representatives of large banks where? In New York?

A. New York primarily.

Q. Any other city?

A. Chicago men are here, yes.

Q. In your opinion what effect will this proposed merger have on the ability of small and medium-sized business to [fol. 3660] obtain financing?

A. With the exception of eliminating one of the two

banks in this merger, I don't think the effects will be detrimental at all. There will still be quite a number of banks to which they could go.

Q. Will there be any advantageous effects there?

A. Advantageous from the standpoint of competition?

Q. Advantageous from the standpoint of the borrower. Suppose it is a risk loan.

A. Well, there is the possibility that with a large bank they will be willing to take certain exposures that a small bank may not be willing to take.

Q. A bank such as yours, for instance?

A. That's right.

Q. The loan might be within your lending limit——

Mr. Reycraft: I object to leading him.

By Mr. Littleton:

Q. Have you had any experience where it was a loan that might be within your lending limit that you didn't take for some reason?

A. Oh, yes. We have turned down applications for loans and there are some that we know have gone to other banks and the loans have been approved.

Q. Were these loans that in so far as your lending limit [fol. 3661] was concerned you could have taken?

A. Yes, within our lending limit.

Q. But you didn't feel that you could take the risk because of your smaller size?

A. Well, they——

Mr. Reycraft: I object to it.

The Court: Overruled.

The Witness: Well, they didn't come up to our standards in our credit men's estimation. Passing credit, we do not all think alike, and you can get a dozen credit men in a room and give them examples and unless it is a AAA company you may not get the same answer from all of them.

By Mr. Littleton:

Q. Have you referred any such prospective borrowers to any larger bank?

A. No. If we feel that the quality is not good enough for

our bank, we do not suggest any other bank to them. We let that to the choice of their accountant or their attorney.

Q. Or themselves?

A. Or themselves, yes.

Q. In your opinion will this proposed merger have any effect on interest rates charged on loans to small or medium-sized business?

A. No. I don't think it will affect it at all because interest [fol. 3662] rates are a question of regulation by Government, number one, and what the competition is charging generally, and the interest rates that are prevailing on investments.

Q. Did you ever lose the opportunity to make a loan by reason of your interest rate?

A. No. If the application is presented to us, other than the limits as set by law, we can use our own judgment as to what we think the going rate is and the fair rate; and the customer has the right to shop around if he feels that the rate is not fair and see if he can do better elsewhere.

Q. Have you ever cut an interest rate in order to get a loan?

A. We have cut the proposed rate where an established customer has been taken or has gone to another bank and they have quoted a lower rate than we did. We have lowered the rate, so that we would not lose the account.

Other than that, we do not make a practice of lowering or quoting a rate below what the applicant states he has been getting at his present bank.

Q. In other words, your general policy is not to cut rates?

A. That's right.

Q. In your opinion, what effect, if any, will the proposed merger have on the interest rates on savings and time deposits?

[fol. 3663] A. I don't think it will have any effect on it. The maximums are prescribed by law and the competition generally is another governing factor, and the rates that we can get on loans and investments govern our policy as to how much we can afford and should pay to our savings and open-time-account customers.

Q. Is the competition in the savings and time field intense in Philadelphia?

A. Yes, yes. I would say it's very intense.

Q. And your competition other than the commercial banks is what?

A. Well, the savings and loans are probably the stiffest competition; and they are quoting higher rates than the banks are permitted by the law to pay.

Q. Is there any other competition for the savings besides the savings and loans and the commercial banks?

A. At the minute, I can not think of something——

By the Court:

Q. How about the Philadelphia Saving Fund Society?

A. Well, of course, all the mutual—you are right, Your Honor, all the mutual-savings banks.

By Mr. Littleton:

Q. In your opinion, Mr. Mason, what effect, if any, will the proposed merger have on the service charges charged by [fol. 3664] banks?

A. I don't believe it will have any effect.

Q. Why do you say that?

A. Well, we get back to the competition factor again and if you have service charges that are not within reason and competitive you will just lose the account.

The customer always has the privilege of seleeting what bank he wants to do business with.

Q. In your experience do smaller borrowers differentiate in the banks from whom they borrow money on any definite basis or rationale?

A. No. I think it is a matter of choice, basically, and convenience. Personalities enter into it, the type of solicitation; but I do definitely feel that certain small businessmen would rather do business with a small or medium-sized bank than they would with a large bank; not by any means all, but there are some.

Q. What will be the effect of this merger on that situation, if any?

A. That is one of the benefits that I earlier said we hope we derive. I think in any merger there is a certain number of customers that will leave the merged bank. We hope that they come to Liberty.

Q. Besides you, are there other alternative choices in [fol. 3665] Philadelphia to which they could go?

A. Oh, yes, yes. We have many banks, smaller and larger than we are.

Q. In your opinion would this merged bank, if, as, and when this merger is approved, prevent prospective depositors from making deposits in any other banks?

A. No restrictions whatsoever.

Q. There is no way in which the merged bank could bring this about?

A. I know of none. I can not visualize any.

Q. Could the merged bank prevent prospective borrowers from having their borrowing needs adequately served by the other banks in Philadelphia?

A. Absolutely not.

Q. Could the merged bank in any way control or fix the rates of interest that borrowers would have to pay to the other banks?

A. Absolutely no. Each bank sets its own policies and it is owned individually; and I see no way in which they could control.

Q. Is there any way in which the merged bank could prevent the other banks in Philadelphia from performing the other banking services in which you engage?

A. None whatsoever.

[fol. 3666] Q. Is there any evidence at the present time of any such restraints being practiced in Philadelphia?

A. Not to my knowledge.

Q. Is there any evidence that any of the mergers that have taken place heretofore, such as the Girard-Corn Exchange in 1950 and the First Pennsylvania in 1955, or any of the others, have created any such restraints in Philadelphia?

A. No.

Q. In your opinion, Mr. Mason, would this merger have the effect that existing and potential competition generally in commercial banking in Philadelphia would be substantially and unreasonably lessened?

Mr. Reycraft: I object. He is asking for legal and economic conclusions and he hasn't defined——

The Court: Read the question back carefully.

(The pending question was repeated by the reporter.)

The Court: The objection is overruled.
You may answer.
The Witness: No, it would not.

By Mr. Littleton:

Q. In your opinion, would this merger have the effect that concentration in commercial banking in the Philadelphia area will be substantially and unreasonably complete?
[fol. 3667] Mr. Reycraft: I object to this entire line.

The Court: You may have your exception. Objection overruled.
The Witness: No, it would not.

By Mr. Littleton:

Q. Plenty of all sized banks will remain after the merger?
A. What is that?
Q. Plenty of all-sized banks will remain after the merger?
A. Quite a number of banks and of varying sizes that will be competing actively for the business in the area.

Q. Would the fact that the merged bank will have about 35 per cent of all the banking assets in Philadelphia affect banking competition in Philadelphia?
A. I don't believe so, no.

Q. Will the merger have the effect that existing and potential competition in the commerce and industry served by commercial banks in the Philadelphia area will be substantially and unreasonably lessened?
A. Would you repeat that, please?

The Court: Read the question back.

(The pending question was repeated by the reporter.)

The Witness: No, I do not think so.
Mr. Littleton: Mr. Price?

[fol. 3668] By Mr. Price:

Q. Well, Mr. Littleton has added the words "substantially and unreasonably" in each of the last three questions that he has asked you. I would like to know whether you would

think that the existing and potential competition generally in commercial banking in Philadelphia will be affected at all by this merger or whether the competition will continue as before.

A. Well, as I see it, it will only be affected to the extent that the Girard and Philly will not be competing against each other.

Other than that, I do not think it will lessen in any way the competition from the remaining banks.

Q. And so far as concentration of the commercial banking by virtue of the merger of the two banks, the Philadelphia National and the Girard, would you consider that that concentration, whatever it is, would have any adverse effect either on the businessman who wanted to do business with the banks or on the other banks in Philadelphia?

A. No, I don't think so.

Q. And so far as competition in commerce and industry generally, would you think that that would be affected at all by this merger, that is, commerce and industry competition, but not banking competition?

[fol. 3669] A. Well, as I said earlier, and I want to make sure I follow the question, I think it might help bring some commerce and industry into the area.

Q. But so far as having an adverse effect is concerned——

A. I don't foresee any.

Q. All right.

Now with reference to bringing industry into the area, what is your opinion about the ability of a bank with a lending limit of approximately $15 million and the resources which such a bank would have to attract industry which is not now attracted by the existing banking facilities?

A. Well, I think it would be helpful because the larger the bank and the larger the capital and surplus, the better position they are in to take more risk loans or loans with greater exposure; and that may bring an industry in here because they would be willing to help finance them, whereas a smaller bank may be hesitant.

Q. Now with reference to the absolute limit of lending capacity of a bank, is it your experience that borrowers usually like to borrow from a bank that has an ample margin between their top loan and the absolute maximum in the form of their lending limit?

A. Well, I think that definitely is a factor. Without [fol. 3670] mentioning names, just this Monday we increased the line to one of our customers to the lending limit, which will take care of him now; but he immediately said, "What do I do if I need more than that?"

So he is concerned that he is up to our legal limit, so I think they do like to see a margin there so that they don't have to rely on a participation where they may not be known, or seek new capital.

Q. And that would require deposits and other problems which wouldn't exist if they could stay at one bank?

A. That's right.

Q. Now, when you spoke about participations a few moments ago, with Philadelphia National being your correspondent bank, you would naturally turn to them first, would you not?

A. That's right.

Q. Which is the more numerous participation, the overlines where you need additional help because your limit is low, or the participations in which the Philadelphia National gives you a part of a much larger loan than they can handle?

A. We go to Philly for participation in our loans more often because they are over our lending limit.

Q. And the other type in which they share a loan with you is something that they handle because you need some additional investment or they have a little bit more than they want at the moment?

[fol. 3671] A. It could be both, but primarily the cases that come to my mind have been because I believe it was more than they wanted or it was above their legal limit.

Q. But you couldn't take very much above their legal limit, could you?

A. That's right.

Q. In any event, that arrangement has been continued for so long as they have been your main correspondent?

A. That's right.

Q. Philadelphia National?

A. That's right.

Q. So there is nothing new about that situation?

A. That's right.

[fol. 3672] Q. In addition to the types which Mr. Littleton

asked you about, you participate in the consumer credit activity, personal loans for automobiles, and what not?

A. Yes, for our sized bank we have a large Consumer Credit Department.

Q. That is a very active part of your business, is it not?

A. Yes, indeed.

Q. And you are in active competition with other banks on that score?

A. Yes, indeed.

Q. Do you consider that that would be affected in any way by the merger?

A. No.

Q. Competition would be just as keen?

A. Yes.

Mr. Price: That is all. Thank you, Mr. Mason.

By Mr. Littleton:

Q. Mr. Mason, I neglected to ask you: You are here under subpoena, are you not?

A. Yes, indeed.

[fol. 3673] Cross-examination

By Mr. Reycraft:

Q. Mr. Mason, when were you asked to testify in this case?

A. What was this?

Q. When were you asked to testify?

A. I was asked—I am guessing now—but maybe a month ago, if I would be willing to testify.

Q. And you were willing?

A. Yes.

Q. And whom did you discuss your testimony with?

A. I discussed it with Mr. Snyder, Mr. Masterson, Mr. Littleton, and one other gentleman. At this minute I can't think of his name.

Q. Was it one of these gentlemen who was the one who asked you to testify?

A. No.

Q. Who was it who asked you to testify?

A. Mr. McDowell.

Q. Of the Philadelphia National Bank?

A. That is right.

Q. And your bank has been a correspondent of the Philadelphia National Bank since 1885; is that right?

A. That is right.

[fol. 3674] Q. Does your bank now keep a deposit with Philadelphia National Bank?

A. Yes.

Q. For what purpose?

A. We are not members of the Federal Reserve Bank, and they clear our checks for us, and in addition to that we are required to carry our reserves. Not being members of the Federal, we have to have correspondent banks, approved correspondent banks, to make up our reserves unless we want to keep it all in cash.

Q. And the Philadelphia National Bank fulfills this function for your bank?

A. With a number of other banks, yes.

Q. Are there any other banks in Philadelphia?

A. Yes.

Q. Where are they?

A. Provident Tradesmens, Central Penn, Fidelity. In fact, every bank in the city that is in the correspondent bank business, we have some deposit account with.

Q. Do you have a correspondent relationship with the Girard?

A. Yes.

Q. How much of a deposit do you have with Philadelphia National Bank?

[fol. 3675] A. Well, that varies, but I would say that the average for the year 1960 was somewhere in the neighborhood of $4 million, and that is an estimate. I do not have the figure, sir.

Q. And this balance would be in compensation for the services which the Philadelphia National Bank performs for your bank?

A. That is right.

Q. What are your deposits with the Girard at the present time?

A. They average in the neighborhood of $300,000 to $400,000.

Q. What is the second largest deposit you have with a correspondent bank after the Philadelphia National Bank?

A. That average is $1,300,000, $1,200,000.

Q. With what bank?

A. Provident Tradesmens Bank and Trust Company.

Q. Is there a Mr. Ralph Earle who is a director of your bank?

A. The 3d, I believe it is.

Q. I have the 2d here.

A. All right, that's it.

Q. He is with Mr. Littleton's law firm, is he not?

A. Yes.

[fol. 3676] Q. How long has he been a director of your bank?

A. Since about a year, I would say.

Q. His grandfather used to be president of your bank?

A. Yes, I think it was his grandfather.

Q. Do I understand from your testimony that you compete in the Philadelphia area for the business of national accounts?

A. Yes, we have a dozen of them, and we feel that it is a constant competition to keep them, and, of course, if we can get new ones, we are trying all the time.

Q. And in attempting to get these new accounts are you in competition with the Philadelphia National Bank and the Girard?

A. Yes.

Q. And is your loan limit a significant factor——

A. I would like to qualify that a little bit. We are in competition, but in most instances I think those banks already have a deposit relationship and we are trying to get one too. To that extent we are competing.

Q. Now, as a correspondent bank of the Philadelphia National Bank does this have any effect on the degree of your competition with the Philadelphia National Bank?

A. No. We will take any account we can get from them.

Q. And they will take any account they can get from you?

[fol. 3677] Mr. Littleton: He doesn't know that. I object to that.

Mr. Reveraft: He knows what accounts——

Mr. Littleton: I object to the question whether they will

take any account that they can. He can't tell the state of mind of the Philadelphia National Bank.

The Court: The objection is sustained.

By Mr. Reycraft.

Q. Have you ever lost any business to the Philadelphia National Bank?

A. Yes.

Q. What type?

A. Commercial accounts, deposits, and borrowing customers.

Q. Had your loan limit been a factor in that?

A. No, I don't believe so. I can't recall any.

Q. What happened?

A. Well, I know of several cases where our lending officer felt, based on the statement, that he did not want to increase our line of credit, and they went into the Philadelphia National, and that particular lending officer saw fit to give them their request, and so they went with Philadelphia [fol. 3678] National.

Q. So that this was business you turned down, in effect?

A. We turned down the increase. We would like to have kept the account and were quite willing to lend what we thought was a reasonable amount based on the statement.

Q. And was your lending limit any factor in that loss of business?

A. No. Well, no, with the exception that with our capitilization we are careful who we give our lending limit to. I feel certain that we would not take as many borderline loans as a real large bank would take, because a loss of one of them would be quite a blow to our capital structure where it would be a minute *finger* to theirs.

Q. Do I understand that as far as the business which you testified you lost to the Philadelphia National Bank, your lending limit was not a factor?

A. Of the cases that I can think of now, no, it was not a factor, and I am quite sure of that statement because, as I testified earlier, if we thought the credit was good and we approached Philly National, they would never turn us down in a participation.

Q. Do your customers object to having Philadelphia National Bank participate in your loans?

[fol. 3679] A. Very few of them know it or realize it, and in those cases where they do know it, there has been no objection.

Q. So that there have been cases, if I understand you correctly, where you have given loans in excess of your lending limit, where you have given participations out?

A. Yes.

Q. And your customers have known about it and haven't objected?

A. In some cases they have known about it. In the cases where we felt it was the thing to discuss with them, they have not objected.

Q. Have any objected?

A. None that I can recall.

Q. Now, you expressed a number of conclusions with reference to competitive effects or lack of them on the proposed merger; is that correct?

A. I gave my opinions.

Q. Can you tell me what type of study you conducted to form your opinion?

A. The only study I have made has been what I have read of people that I felt had the wherewith to get statistics, had a reputation for being knowledgeable, and for the million and one financial articles that we read annually—[fol. 3680] that is how I drew my conclusion, not by charts or percentages.

Q. Are you referring now to the type of publications which you read ordinarily as bankers in the normal course of your business?

A. Yes.

Q. Are you referring to the "Wall Street Journal," financial publications?

A. Yes, those and reports from the Federal Reserve System and the various banking magazines, speeches that are made constantly throughout the area by well known financial men and economists.

Q. And in any of these publications or speeches that you have read have you heard any discussions of this merger?

A. Yes, I have read some of the testimony, for instance, of Dr. Harris and Dr. Goodman, and so forth. I mean I have read those, what they said.

Q. What other testimony did you read?

A. Well, I read snatches of a lot of it as it is in the American Bankers or Eastern Bankers Magazines and occasionally what is written in the "Bulletin" or "Inquirer" here.

Q. And did you examine any statistics concerning the [fol. 3681] markets of the respective banks involved in this proposed merger?

A. Not examine them, no. I have read some of them. For instance, when the case started there was something along the lines that the Philadelphia National had a certain percentage of the deposits in Philadelphia. I read that.

Q. You indicated that you relied to some extent on publications of the Federal Reserve System; is that right?

A. I read this, yes. I take the composite and try to analyze the conditions in this area.

Q. Can you point to any particular publication of the Federal Reserve that you relied upon?

A. No.

Q. Did you read the report of the Federal Reserve Board on this particular merger?

A. No.

Q. You did not?

A. No.

Q. Do you know what the Federal Reserve Board's opinion was as to the effects of this merger?

A. I was told that the Federal Reserve Board voted against it.

Q. But you didn't read it?

[fol. 3682] A. I did not have access to it.

Q. Did you read the report of the Federal Deposit Insurance Corporation on this particular merger?

A. No. When I say "No," if they were reprinted, I probably read part of them. I mean if they have been in the newspaper or these magazines.

Q. I would point out to you that they are in the record of this case but I don't believe they have been published.

A. Then I have not.

Q. Now, in your opinion, I believe you stated that the fact that the combined bank would have 36 per cent of the assets in the Philadelphia area would not amount to undue concentration; is that correct?

Mr. Littleton: 35 per cent, Mr. Reycraft.

A. No, I don't think it would.

By Mr. Reycraft:

Q. In your opinion, would any increase in that percentage result in undue concentration?

A. Any increase?

Q. Yes.

A. Well, that depends what you mean by any increase. If you mean another 1 per cent or 2 per cent or 5——

Q. Suppose it went up to 50.

[fol. 3683] A. —I would say no, but if you said it went up to 95 or 90, it probably would. I do not know where the line of demarkation is, whether 35 is as high as it should be, or 45 or 55, but my own feeling is that 35 is not a concentration that should be feared.

Q. But you think that at some point there would be an undue concentration?

A. Oh, sure. If we had a hundred per cent, it would be undue, without question. I don't know where the dividing line is.

Q. You wouldn't care to express an opinion as to how much short of a hundred per cent you think would be undue concentration?

A. No, I do not think I am qualified for that.

Q. You don't have an opinion, for example, as to whether 80 per cent would be undue concentration?

A. I have an opinion, but I have nothing to base it on other than my own personal thoughts. I think 80 per cent would be entirely too high.

Q. How about 70 per cent?

A. Well, I am going to answer the same way down to 70, 60—I do not know—but I have a feeling that 35 is not a concentration.

Q. In reaching your opinion that there is some point at which there would be undue concentration, why, in your [fol. 3684] opinion, would that be disadvantageous or undesirable, if you think it would?

A. Well, I think any thing that gets to a point where it would be a monopoly, which is certainly 90 per cent or 95 per cent which I believe you said, would be getting very close

to a monopoly and it would eliminate the choices. As I see it, in Philadelphia I believe the testimony said there are 17 banks. If this makes it 16, they still have multiple choice, but if you get down to where one bank has 95 per cent, you eliminate the multiple choice, and then the public would be pretty much under their dictates as to interest rates, and so forth.

Q. If one bank had 80 per cent of the business and 12 others had the rest, do you think that would be an undue concentration situation?

A. I think it could be, yes.

Q. You think it could be?

A. Yes.

Q. Despite the fact that all these alternative choices are available?

A. Well, they don't have much of an alternative, because when you get down to those percentages, those other 12 banks would have to be reasonably small, and they couldn't go in there to get a medium-sized loan.

[fol. 3685] Q. They could be about the size of your bank, couldn't they?

A. I don't have the figures here in total, but what does 20 per cent represent?

Q. In terms of assets? Dollars of assets? The total for Philadelphia County, according to D-15, is $5,322,000,000, and your bank represents $123,455,000 of that.

A. What percentage is that 123?

Q. I get under 2 per cent. Our slide rule indicates roughly about 2 per cent.

Anyway, with one bank having 80 per cent and the remainder divided up among 10 banks the size of yours, do you think the alternatives would be adequate?

A. No.

Q. Why not?

A. Well, we would be more or less restricted to one bank for participation in loans in this area, whereas today we can go to Provident and Central Penn and Fidelity. We also can go to the New York banks.

Q. Is it important to a bank of your size to have alternative sources within the area for participations?

A. Well, it hasn't been up to date, because, as I mentioned, we have never been turned down.

Q. Did I understand you to testify earlier that all of your [fol. 3686] participations are given to the Philadelphia National Bank?

A. That is right.

The Court: We will recess till 2:00 o'clock.

(Recess taken at 12:30 P.M. until 2:00 o'clock P.M.)

[fol. 3687] [File endorsement omitted]

AFTERNOON SESSION

Present: Counsel as before noted

ALBERT T. MASON, resumed.

Cross-examination. (Resumed)

By Mr. Reycraft:

Q. Mr. Mason, I believe before the recess the last question I was asking you had to do with your opinion as to whether there would be undue concentration of commercial banking in the Philadelphia area if one bank had 80 per cent of the bank assets and there were ten remaining banks who divided the rest of the business among them.

A. I believe I answered that one and said that I thought that would be an undue concentration.

Q. Can you tell me why, sir?

A. Well, I don't think there would be sufficient large banks—your question, I believe, was if the twelve remaining banks were the size of Liberty.

Q. Yes.

A. They would be restricted to the banks that they could go to for participations.

Q. Do you think it would be an undue concentration as it [fol. 3688] applied to the remaining banks?

A. That's right.

Q. Because the remaining banks would have only one bank they could go to for over-line participation?

A. That's right; in this area.

Q. In this area?

A. That's right.

Q. In your opinion, would there be undue concentration as it affects borrowers in the area?

A. Well, that would be where the concentration is. I don't think there would be in ordinary services, but if the request for credit was beyond the lending limits of these ten or twelve smaller banks, they could only go in this area to the one with the 80 per cent, if there was such a concentration.

Q. For example, your bank has a lending limit of $726,000. For all borrowers below that amount, you would think there would not be an undue concentration?

A. That's right.

Q. The answer is that's right; all right.

How many alternative sources among the large banks do you think it is necessary to have in order not to have undue concentration?

A. Well, I think it would depend somewhat on the eco-
[fol. 3689] nomic conditions. With our own experience we have found one to be enough.

By Mr. Littleton:

Q. One to be what?

A. Enough, since I previously mentioned we have never been turned down on a request to participate.

By Mr. Reycraft:

Q. And you have given all your participations to the Philadelphia National Bank as far back as you can remember?

A. That's right.

Q. So that as far as your particular bank is concerned, if there should be only this one bank with 80 per cent of the business, there wouldn't be any effect on you, would there?

A. Not if the policies of the remaining bank stayed as they are now.

Q. And on that assumption there would be no undue concentration as far as your bank is concerned?

A. That's right.

Q. And there would be no adverse competitive effect on your bank of such a concentration; is that right?

A. That's right.

Q. Mr. Mason, how many branches does your bank have?

A. We have nine branches, ten offices.

[fol. 3690] Q. Were some of these branches established in recent years?

A. Yes. Six of them were established in the last five years.

Q. Were they de-novo branches?

A. Sir?

Q. Were they de-novo branches?

A. Yes.

Q. Can you tell me what commercial banks are in competition with your Frankford office?

A. Second National Bank, Frankford Trust Company, Girard Corn Exchange, Germantown Savings Fund, and I believe it's Western Savings Fund.

Q. Does the Girard have two branches near to that office?

A. They have two up there in the Northeast, yes.

Q. What do you consider to be the area of a branch office?

A. Well, there is no set rule on that. We hope to have an area from 1½ to 2 miles.

However, we have opened branches directly in the communities where other banks are established, in fact, across the street from them because it is not only a question of getting new busines, it's a question of servicing and retaining the accounts that we now have.

Q. So on the question of retaining accounts that you now have, do you have business throughout the Philadelphia [fol. 3691] area, irrespective of the location of your branches?

A. Yes.

Q. And your business is not necessarily dependent upon it being within a mile or two of a branch, is it?

A. To a large degree, it is, because we found that we were losing deposit accounts regularly from our in-town offices because other banks were opening or had offices in other sections of the city; and in order to retain those accounts and to get additional business we felt it was necessary to establish branches.

Q. And this is one of the reasons you gave the State authorities when you were applying for branches—to protect existing business?

A. That's right.

Q. Mr. Mason, does your bank have any industry specialists at the present time?

A. No, we do not.

Q. Do you think you need that in order to service adequately the customers that you now have?

A. No.

Q. Can you tell me why?

A. In our size bank, the lending officers are not specializing in a particular industry. They will handle many types of businesses as far as the loan applications are concerned.

[fol. 3692] Q. And you think that you can do that adequately without specialization?

A. Yes. We feel we do.

Q. Do you think it will be necessary for your bank to go into industry specialization?

A. No. I do not.

Q. Do you think that a bank which has industry specialists will have a competitive advantage over your bank?

A. I don't think they will, primarily because we will not be getting these large industries as their main bank. We won't have those.

Now, in a large bank, my own feeling is that they should have specialists and they should have a sufficient number of accounts in a particular industry that it would support a specialist.

Q. Your bank at the present time is not competing for any national accounts; is that right?

A. We compete as far as getting them and servicing them.

We can not compete as far as offering them their requirements in credit; and we do lend to them up to our legal limit, as I said, but we can't compete and hold them as our own where their requirements are large.

Mr. Reycraft: That's all I have.

[fol. 3693] Mr. Littleton: Just one or two questions, Mr. Mason.

Redirect examination.

By Mr. Littleton:

Q. I neglected to ask you, Mr. Mason, do you have a correspondent bank in New York where you keep deposits?

A. Yes, we have a number of them.

Q. You have a number of them?

A. Yes.

Q. May I ask, generally, what the purpose of that is?

A. Well, it varies. One is to clear certain transactions quickly in New York through debits and credits to our account; delivery of securities, where they are to be delivered in New York; and also we have found that the more friends we have in this business, the better off we are; and not being a member of the Federal Reserve System, those deposits are also counted as our reserve requirement.

Q. Now, in answer to some of Mr. Reycraft's questions you spoke of having read some of the testimony in this case. You don't mean you read the transcript of testimony, the official transcript?

A. No. I have read what the writer in the newspaper's accounts of the case have been. I have seen no official documents.

[fol. 3694] Q. As I understand it, the opinions which you have expressed here were based on what you have read plus your years of experience as a banker in Philadelphia; is that correct?

A. That is absolutely correct.

Mr. Littleton: Mr. Price?

By Mr. Price:

Q. Mr. Mason, Mr. Reycraft asked you about loans or a loan which your lending officer might not want to take because of the risk and its relationship to your resources, and that loan was taken by a larger bank which had larger resources.

I direct your attention to the other type of loan, where the loan may be small as contrasted with your resources, but still you don't want to take it. Such a loan would be classed, perhaps, as a non-bankable loan.

How many alternative sources do you think that a bor-

rower should have in order to determine whether any bank is going to make his loan or he has to go to some other source for his credit needs?

The Court: Read that question.

(The pending question was repeated by the reporter.)

The Witness: Well, that could probably be argued a number of ways, but I would think if there were three sources [fol. 3695] and he was turned down by all three, that he should be pretty well convinced that it is a non-bankable loan.

Mr. Price: That's all, thank you.

Recross-examination.

By Mr. Reycraft:

Q. You think three alternative sources are sufficient?

A. Yes. We are now talking about a small loan under $726,000. If he approaches three banks and an experienced credit man at all three banks turns down the application, I think it is reasonable to assume that the banks don't want that type of loan or that loan.

Q. For borrowers who want under $727,000, you think if there were three banks available as alternatives that would be sufficient?

A. Yes.

Mr. Reycraft: That's all.

Mr. Littleton: Thank you very much, Mr. Mason. That's all.

Mr. Littleton: Mr. Weinrott.

[fol. 3696] SAMUEL WEINROTT, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Mr. Weinrott, where do you live?
A. In Narberth, Pennsylvania.
Q. What is your business or profession?
A. Well, I am both a banker and a lawyer.
Q. Well, which are you working at at the moment?
A. At banking.
Q. In what bank?
A. Industrial Valley Bank & Trust Company.
Q. And your position in that bank?
A. Chairman of the Board.
Q. That has been your position for how long?
A. About three weeks.
Q. Before that, your position?
A. I was president of the Industrial Trust Company.
Q. Do I understand the Industrial Trust Company merged with Jenkintown Bank & Trust Company?
A. That's right; as of June 30, 1961.
Q. To form the Industrial Valley Bank & Trust Company?
A. That's right.
Q. How long were you chairman, did you say, or president
[fol. 3697] of the Industrial Trust Company?
A. I was president from January 1, 1960—January 28, 1960, until June 30, 1961.
Q. Before that, your position in Industrial?
A. I was the senior vice-president, chairman of the executive committee, and trust officer.
Q. For how long?
A. Oh, five or six years.
Q. How long have you been in the banking business, Mr. Weinrott?
A. In this bank, for about twelve or thirteen years, thirteen years.
Q. That is the Industrial Trust Company?
A. That's right.
Q. In its now new merged title?
A. That's right.

Q. Before that did you have any banking experience?

A. Yes.

Q. Will you tell us about that?

A. I had considerable experience in negotiations with banks and as a result of that, of course, generally developed a concept of banking, the ideas that go with banking.

Q. But when you went to the Industrial Trust Company was that your first full-time position in banking?

[fol. 3698] A. Yes, working from the inside out.

Q. Do you hold any official positions in the banking world in the Commonwealth?

A. Yes. I am a member of the State Banking Board.

Q. How long have you been a member of the State Banking Board?

A. About two and a half years.

Q. Which type of member are you? That is, by whom were you selected?

A. I am a member-at-large, selected by the Governor.

Q. Which Governor appointed you?

A. Originally by Governor Leader; reappointed by Governor Lawrence.

Q. Now, will you tell us the size, generally, of the Industrial Valley Bank & Trust Company—assets, loans, deposits, capital?

A. The Industrial Valley Bank & Trust Company as of June 30th had total assets, including reserves, of approximately $92 million. The deposits at that time were approximately $80 million; loans of approximately $43 million; reserves of about $2.5 million.

It had capital funds of approximately $7.5 million, including undivided profits.

Q. Now, this is a bank that has been in existence only for [fol. 3699] the past three or four weeks?

A. As the Industrial Valley Bank.

Q. As the Industrial Valley Bank & Trust Company?

A. That's right.

Q. The Industrial Trust Company immediately prior to the merger was what size?

A. Immediately prior to the merger it was approximately $60 million.

Q. That is assets?

A. Total assets, yes.

Q. Can you remember its deposits approximately?

A. My recollection is that the deposits at that time would be about $54 million.

Q. And your capital and surplus at that time?

A. About $5 million, capital, surplus, and undivided; about $4.5 million.

Q. Can you recall what the figures were for those assets, deposits, capital, and surplus at the time you first became connected with the Industrial Trust Company?

A. If I am privileged to refer to some statements that I have pulled out of my files yesterday, the published statements—do you have any objection to it?

Mr. Reycraft: Oh, no.

The Witness: The statement as of June 30, 1950—I came [fol. 3700] with the bank, I think, in January of 1949—shows total assets of approximately $26 million.

In 1951 they had dropped back to $24.5 million; in 1952 they went to $25 million. They went to $26.5 million in 1953. In 1954 they dropped back about $300,000.

Then in 1955, in June of 1955, we moved into the center of town. We had our main office at that time at 1944 North Front Street, right next to what is now a branch of the Philadelphia National Bank.

We moved into the center of town and as of June our total assets (we came in the 15th of June of 1955) were $28,985,000. However, my recollection is that as of the end of the year 1955, with the acquisition of a small private bank of some $2 million, our total assets went well over $35 million in a six-month period.

Then in 1959 (I don't have the interim figures here but they show steady growth) our deposits, June 30, 1959, were $42.5 million. In 1960 they went $44.5 million, and in 1961, June 30, 1961, our total assets were $59,760,000, which included approximately $7.5 million that we got from the Perkiomen National Bank up in East Greenville, Pennsylvania, in the northwestern corner of Montgomery County.

So that if you deduct the $7.5 million and you want to use comparable figures, we went from $44.5 million to approximately $52.5 million in one year's time.

[fol. 3701] Q. In one year's time?

A. Yes, sir.

Q. And what has been the rate of increase since the time

you joined Industrial Trust Company down to the time when Industrial Trust Company merged with the Jenkintown Bank?

A. Almost a hundred per cent growth, slightly in excess of a hundred per cent growth.

Q. What was your ranking, do you know? What was the ranking of Industrial Trust Company in size at the time you joined it in Philadelphia?

A. Well, in 1949 we probably had something like 30 or 35 banks in Philadelphia alone, and I would judge we were well down that scale. We were probably one of the smaller banks in the City of Philadelphia, with $25 million. I think the Second National Bank, which is now smaller than we are, or were, as the Industrial Trust Company without merger, was slightly larger than we were, and then came the Frankford Trust Company and on up the scale. I don't remember the names of all the banks which merged in the last ten years, but they are rather considerable.

Q. In your experience with the Industrial Trust Company have you found that this relative small size the bank enjoyed when you first joined it has been any handicap in increasing the deposits and the loans of Industrial Trust Company [fol. 3702] during the period that you have been connected with it?

A. No question about it.

Q. No question?

A. No question. Size, smallness, doesn't permit us to acquire the type of customer——

Q. My question was, did you find it to be a handicap?

Mr. Reycraft: You are interrupting him. Let him complete his answer.

A. The smallness of our bank would tend to restrict our lending capacity, obviously.

Q. Have you grown during this ten-year period?

A. Considerably.

Q. Will you tell us about the establishment of the branch on Walnut Street.

A. We came into Walnut Street on June 15, 1955, just about six years ago, and the facts speak for themselves, and by the end of that year, as I indicated a few minutes ago, with the acquisition of a little private bank of some $2 mil.

lion, we had grown to something in excess of $35 million within approximately six months. I think those figures are correct.

The Court: Keep your voice up, Mr. Weinrott.

[fol. 3703] The Witness: I think those figures are correct, which show a growth of well in excess of $5 million in a short period of time.

When we came to the center of town, the newspapers talked about banking being in reverse, in the sense that we were moving from a little area into the center of town, where the big banks were associated, or were located, rather.

We found that no hindrance. We can compete with them. We don't find them any better than we are, but you have got to work at this business the same as you do everything else. If you work, you will do well, as we have done.

By Mr. Littleton:

Q. To what do you attribute your growth?

A. To hard work.

Q. Do I understand that the 15th and Walnut Street location is a branch or is it the main office?

A. It is a branch.

Q. And the main office is still where it was when you first joined the Industrial Trust Company or it was prior to the recent merger?

A. The main office of the Industrial Trust Company remained until June 30, 1961, at 1944 North Broad Street, [fol. 3704] next to the Philadelphia National Bank branch.

Q. After you joined the Industrial Trust Company we had one big merger here, didn't we, of the Girard Trust and the Corn Exchange Bank? That was in 1951?

A. Yes, sir.

Q. Did you find that that merger in any way stopped your growth or detracted from your ability to attract deposits and make loans?

A. No, sir.

Q. And the merger of the First National Bank and the Pennsylvania Company in 1955, did that have any adverse effect on your ability to make loans and attract deposits?

A. In 1955? Obviously not. We had our greatest growth in six months' time.

Q. That is the year that you put your branch in on Walnut Street?

A. That is right.

Q. Did your growth come from new customers?

A. Old and new.

Q. Did you attract customers from the larger banks in Philadelphia?

A. Yes.

Q. How did you do that?

A. Well, they wanted other smaller banks sometimes. [fol. 3705] Sometimes we had friends. But there is no set pattern how to get customers in the banking business. You do it like every place else.

Q. Service included?

A. Service and the ability to do a good job.

Q. From your experience, do you have an opinion as to whether size of a bank has anything to do with its ability to compete?

A. Well, when you talk about size, you got to talk about the kind of bank you are talking about. If you are talking about a small bank that just wants to do nothing, sit back, that is one thing. If you are talking about a bank that wants to get ahead, it doesn't make any difference what the other fellow is doing. You just do what you think you are going to do.

Q. I didn't hear that.

A. I say it doesn't make any difference what the other fellow is doing. You do what you think you ought to do and you will do well.

Q. Are you saying by that that size does not make any difference?

A. No, sir, not that kind of size. We are talking about resulting from merger.

Q. What can you say as to the intensity of competition in [fol. 3706] the Philadelphia area among commercial banks at the moment?

A. Extremely keen.

Q. Would you say it is greater or less than it was when you first joined Industrial?

A. Greater, much greater.

Q. You are aware, of course, of the desire of the Philadelphia National and the Girard Trust to merge. In your opinion and from your experience what will be the effect of that merger when consummated upon this competition?

A. It will get worse. Just competing even more intensely.

Q. You mean there will be a greater intensity of competition?

A. Oh, certainly.

Q. Tell us why.

A. Well, the general banking picture isn't restricted to an area fenced in. The whole structure of the banking industry is spread out, and by the rapid means of transportation, Philadelphia is no longer circumscribed by City Line at all. It includes places as far as Allentown, Harrisburg, and Wilmington, all the way up in Northern New Jersey. That is the area Philadelphia serves. We serve people that [fol. 3707] come from those areas too. Our area is not within the City of Philadelphia or within the contiguous counties. It may be beyond that, and the whole scheme of things is different.

The other part of it is that banking has changed tremendously. Years ago a man sat behind his desk, and when a man came in to borrow money he came in with temerity and timidity. Today the banker gets up and greets him—glad to see him. He goes out. He is afraid he is liable to lose a customer.

We all do that, I am sure. It is a different kind of thing.

Q. How far out does your bank go?

A. How far out? We have customers in Delaware, who work in Delaware. We finance a number of constructions in Delaware. We finance construction as far west as Harrisburg. We finance construction in Allentown. We have various loans in parts of New Jersey. We feel as though our area has a radius of maybe 75 or a hundred miles.

Q. In your experience are you aware of any bank from outside Philadelphia coming into Philadelphia to get Philadelphia business?

A. The City of Philadelphia swarms weekly with New [fol. 3708] York banks. No question about that. There isn't a week goes by that we don't have somebody from the New York bank come to visit us.

Q. They come to you?

A. Oh, sure.

Q. Do you know whether they come to your customers?

A. This morning we got a call from a New York bank. Every week, maybe two or three times a week.

Q. Do you know that they also go to your customers?

A. Oh, sure.

Q. Do they come from any other cities besides New York?

A. Yes. We have people coming from Pittsburgh seeking accounts, people from out in Long Island seeking accounts with us and others.

Q. Do you apprehend any disadvantageous result to your bank if this merger is approved?

A. Our bank? No, sir.

Q. Why not?

A. Because we are not worried about the merger. We just keep on working and go ahead.

Q. Do you anticipate any advantages from this merger?

A. Yes.

Q. Tell us what they would be.

A. Well, we would like to have a larger Philadelphia [fol. 3709] bank with whom we could participate. We have enjoyed participations, successful participations, with many banks, and the larger the bank the easier it is for us to participate. As a matter of fact, we have practically no participation with the smaller banks. You can't get them. They are not qualified. They are not set up to do it.

Q. As I understand your testimony, you make a great many construction loans?

A. Yes.

Q. Do you participate those loans?

A. Yes, sir.

Q. Where do you participate them now, the larger ones?

A. New York.

Q. If this merger is approved, would that be of any advantage to you in that connection?

A. Yes, sir.

Q. What advantage?

A. We think we would have larger loan participations with the Philadelphia-Girard merger in the Philadelphia area?

Q. Do I infer from your last answer that you prefer to do it in Philadelphia rather than New York?

A. Yes, sir.

[fol. 3710] Q. Why?

A. Well, facility. It is a lot easier to face a man and discuss your problem than take an hour or two or three hours to go over to New York and spend a half day about it.

Q. Mr. Weinrott, it has been suggested here that if this merger goes through, the merged bank will have approximately 35 per cent of the banking assets of Philadelphia. If that is a fact, is it such a fact as would disadvantageously affect banking competition in Philadelphia, in your opinion?

A. I don't think so.

Q. Tell us why or why not.

A. Because it is only just a part. It is another bank.

Q. Would there be ample competition left?

A. Oh, yes, yes, sir.

Q. For all classes of loans?

A. Yes, sir.

Q. Within the lending limits of the Philadelphia banks?

A. Yes, sir.

Mr. Littleton: Mr. Price.

By Mr. Price:

Q. Mr. Weinrott, you spoke about participations. Do you find that a small bank wants to participate or can par-

[fol. 3711] ticipate on loans with another small bank?

A. Very difficult.

Q. What effect do you think the merged bank would have so far as making the participations available to banks of your size and larger?

A. Facilitate the process.

Q. Is that a beneficial condition in the banking field or not?

A. Yes, sir.

Q. Do you think that if this merger took effect, the merged bank would have any power to prevent other banks from serving the community adequately?

A. No.

Q. Would it have any adverse effect upon the ability of other banks to serve their customers in the community adequately?

A. No, sir.

Q. Do you think that the merged bank would have any power to fix interest rates imposed or charged by other banks?

A. That is not fixed by banks. That is fixed by the Government.

Q. Would such a bank or a bank of that size have any power to influence adversely the other banks in the com [fol. 3712] munity from performing banking service?

A. No, sir.

Q. What has been your observation so far as the increased size of banks in Philadelphia from mergers in the last ten years with reference to their ability to affect the business of other banks not participants to the merger?

A. They intensify competition.

Q. Would you consider that if the merger took place, existing and potential competition generally in commercial banking in the Philadelphia area would be lessened in any way?

A. I think not.

Q. And would you consider that the concentration of commercial banking in the Philadelphia area would be substantially and unreasonably increased as a result of the merger?

A. I didn't get the first part of that question, Mr. Price.

Q. Whether concentration in commercial banking in the Philadelphia area would be substantially and unreasonably increased by such a merger.

A. No.

Q. Would you consider that the merged bank would have [fol. 3713] any effect on existing and potential competition in commerce and industry which is served by the commercial banks in the Philadelphia area?

A. It certainly would not slacken competition. You don't think these other banks are going to stand by and see you fellows get anywhere?

Q. You spoke about your bank having grown through hard work. Would you consider that the existence of other large banks or larger banks, banks the size of the proposed merged bank, would affect the ability of a smaller bank to prosper and grow, providing the management was willing to indulge in hard work and had a purpose to get ahead?

A. No, it wouldn't hurt us. I think we have amply demonstrated it not only wouldn't, it doesn't.

Q. Have you seen any adverse effect on either business in Philadelphia or other banks in Philadelphia as a result of any merger that has taken place in the past?

A. I haven't noticed anything appreciably.

Q. Have you noticed any benefits as a result?

A. Sure. Apparently the announcement of the merger has increased their deposits $8 million in a year.

Mr. Price: That is all. Thank you.

By Mr. Littleton:

Q. Just one question, Mr. Weinrott: You are here under [fol. 3714] subpoena, are you not?

A. Oh, yes.

Cross examination.

By Mr. Reycraft:

Q. Mr. Weinrott, is your bank a correspondent of the Philadelphia National Bank?

A. It is, sir.

Q. And for how long has it been?

A. I was not connected with the bank at the time, but I understand well over 50 years—the Philadelphia National Bank.

Q. And the Philadelphia National Bank performs many services for your bank, does it not?

A. Nothing for nothing.

Q. Nothing for nothing?

A. Oh, no. They don't do anything for us for nothing, we don't do anything for them for nothing.

Q. I assumed that.

How much of a deposit do you have with Philadelphia National?

A. It varies anywhere, I judge, from three-quarters of a million to a million and a quarter, depending upon the float and the collection of the float.

Q. And that is the compensation for the services they [fol. 3715] perform for you; is that right?

A. I beg your pardon, sir?

Q. Is that the compensation for the services they perform for you?

A. Yes, part of it.

Q. What is the other?

A. Well, you say it is for services.

Q. Yes.

A. Yes. If they didn't perform any service, we would take the money out.

Q. Is there any other compensation you give them for the services other than the deposit?

A. I don't know what we can get and we can give them.

Q. You don't think of any at the moment?

A. That we can give them?

Q. Yes.

A. Unless we give them loans when we have them and they need them, if that is compensation.

Q. Can you do this? Do you give them loans?

A. Sure. That's how we participate.

Q. What other banks do you give participations to other than the Philadelphia National Bank?

A. We give some participations to the Fidelity Philadelphia. We have had participation with other banks in [fol. 3716] Philadelphia. We shop around, get the best deal we can. We do a lot of participation with banks in New York, more substantially in New York than in Philadelphia.

Q. More substantially in New York than Philadelphia?

A. Oh, yes.

Q. Who is your correspondent in New York?

A. Bankers Trust, Marine Midland, Schroeder Trust Company, Irving Trust Company, First National Bank of Boston.

Q. Have you sent participations to all those banks within the past year?

A. Yes.

Q. Within the past year?

A. I don't know if we have had anything with Boston. I know we have considerable with Bankers. We have considerable with Marine Midland. It depends upon——

Q. How many loans in the past year?

A. I have no idea of the volume of the loans, but I can only tell you this. At one time we had as much as $25 million

of participation with Bankers Trust Company in one year.

Q. Out of what total loans of your bank?

A. Our total loans were less than $20 million—our loans. [fol. 3717] Q. And you had $25 million participation with one bank?

A. Sure. Those figures may be shy maybe two or three million dollars one way or the other.

Q. How many mergers has your bank engaged in in the past several years?

A. We had a so-called merger of convenience with the Rzepski Bank, a Polish bank up in a little area up around Richmond, a private bank.

We merged with the Perkiomen National Bank in December of 1960, December 30. We just recently merged with the Jenkintown Bank and Trust Company.

Q. I take it you don't think those mergers adversely affected competition?

A. With whom?

Q. With anybody.

A. Well, now, what do you mean, with anybody, if I may ask the question? I don't understand the question. You mean any banks? Where? What banks?

Q. Was there any adverse effect on banking competition in any way through those mergers?

A. No.

Q. Now, in your opinion, would the proposed merger between the Girard and the Philadelphia National lessen [fol. 3718] competition in any way?

A. Lessen competition in the banking industry in the Philadelphia area?

Q. Yes, sir.

A. No.

Q. You don't think it would?

A. No.

Q. It wouldn't even lessen competition between the two banks that are merging?

A. Well, certainly it obviously—I can't answer that question. It answers itself. If two banks would merge, certainly it ceases to be two banks. They don't compete as one bank.

Mr. Reycraft: That is all.

Mr. Littleton: Thank you very much.

WALTER RELLER, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Reller, what is your present occupation?

A. I am in the banking business.

Q. How long have you been in that business?

A. Since 1922.

[fol. 3719] Q. Where did you start?

A. In Ambler.

Q. What did you do in Ambler as your first job in the banking business?

A. Well, I started in as a clerk in the then Ambler Trust Company and remained with the Ambler Trust Company until 1941. I filled every position in the bank except president. The bank was then just a small bank, so our competition across the street came after me in 1941, asked our Board of Directors whether they would let me come across the street to run their bank. So in 1941 I moved up to the then Ambler National Bank and have been there ever since.

Q. What was your position when you first joined the Ambler National Bank?

A. Executive vice-president.

Q. How long have you held that position?

A. About 15 years.

Q. And then what happened?

A. Then I became president.

Q. How long were you president of that bank?

A. Until the time of the merger.

Q. What time was that?

A. In 1957. I guess I will have to retrack. The executive [fol. 3720] vice-president was not quite 15 years. That was probably closer to 12 years. I have forgotten those dates. I haven't gone over this. But I was president of the Ambler National Bank about five years prior to our merger with Girard, which was in October of 1957, I believe.

Q. Then you were with the Ambler National Bank for a number of years in an executive capacity before the merger took place?

A. Oh, yes.

Q. And you were familiar with its field of operation?

A. I hope so.

Q. What was the territory that the Ambler National Bank served before the merger?

A. Well, we served, using Ambler as a hub, we served Ambler, Flourtown, and Fort Washington areas principally, having branches in those three places. We felt that our trading area as far as Ambler was concerned was probably a three or four-mile radius.

Q. You had three branches then as branches before the merger took place?

A. Well, we had Ambler, Fort Washington, and Flourtown, three all together.

Q. Three offices?

A. Three offices.

[fol. 3721] Q. A main office and two branches?

A. That is right.

Q. And the main office, of course, was in Ambler itself?

A. That is correct.

Q. And the Fort Washington branch was established when?

A. In 1957.

Q. Just about the time——

A. Shortly before the merger with Girard.

Q. Just shortly before the merger with Girard?

A. Right.

Q. Now, Mr. Reller, when the merger took place with the Girard—and I am assuming that was the first merger the Ambler National Bank had while you were an officer?

A. That is correct.

Q. What effect, if any, did that have on your capacity to serve the community and the customers of that bank?

A. Well, it improved our capacity very definitely.

Q. Can you tell us how that showed itself? How were you better able to serve the community?

A. Well, in a number of ways. Loaning authority, for instance. Before the merger we could loan $50,000 and that was our total lending limit.

Q. That was the limit of the bank?

[fol. 3722] A. That was the limit of the bank, and that, of course, was not sufficient to take care of particularly the new industry that was coming into our area at that time.

[fol. 3723] Q. What did you find in that regard?

A. Well, I can cite one instance where $50,000 almost lost us a very good account.

Q. How was that?

A. One of our local industries was faced with an expansion program and they needed a $300,000 loan. Now, this is prior to our merger with Girard by several years. So they came to us and, of course, I took their application and proceeded to start processing it.

Q. Were they a customer of your bank at that time?

A. It was a customer of our bank at the time.

Q. And had been since they moved in there or were they a late customer?

When did they first become a customer of the Ambler National Bank?

A. Well, they became a customer of the Ambler National Bank when they started in business, about fifteen years prior to this date of application.

Q. And had been your customer right along?

A. Oh, yes, yes.

Q. All right. Then what happened to this case?

A. Well, they applied to us for a $300,000 loan. Of course, I told them what we could do.

We first had to have it approved by Ambler National and [fol. 3724] then apply to some other bank to participate with us in this loan; and while we were in the process of doing this they, on their own, applied to one of the other Philadelphia banks, who, I think, had been trying to get this account away from us for some time and gave them a very quick answer before I could get back to them on an approval through my bank.

They accepted their proposition prior to it being possible for me to give them an answer.

Q. The Philadelphia bank took the whole loan?

A. They took that whole loan.

Q. Did you have any other experiences of that nature, where your lending capacity was embarrassing or troublesome for the growing business of the area?

A. That is the only one back in that time that I can recall, although I did set up on several occasions larger loans than we could take, not on a participation basis, but set up or recommended these borrowers to other local banks, par-

ticularly Norristown—Montgomery Bank & Trust Company now.

On several occasions I referred loans to them which they took.

Q. They took the entire loan?

A. They took the entire loan. We didn't——

[fol. 3725] Q. And you were unable to do so?

A. That's right; it was too large for us.

Q. Now, since the merger have you been able to serve customers better than that?

A. Oh, very definitely.

Q. Have you illustrations of such service?

A. Well, we have, on a number of occasions, approved loans for much over our old lending limit.

Q. What was your individual authority, your personal authority, before the merger?

A. $5,000 to one borrower.

Q. And over that what did you have to do?

A. We had a weekly meeting of our Loan Committee who then, of course, would approve loans up to $50,000.

Q. How long did that take for the Loan Committee to act and give either approval or disapproval of such a loan?

A. Well, we had to wait until our next Loan Committee meeting, which happened to be once each week.

Q. So it might have been as much as a week?

A. Yes.

Q. What is your present procedure?

First, what is your present authority?

A. Well, at the present time my personal lending authority on an unsecured basis is $50,000 which, of course, we can [fol. 3726] give them immediately.

Q. Do you have to consult with anybody else to make a loan, unsecured, of $50,000?

A. No, sir.

Q. How about secured loans?

A. $200,000, I believe, is my lending limit on secured.

Q. So that you can act within that limit of $200,000 for secured without consultation with anyone else?

A. Right.

Q. And then, over that, loans in excess of $50,000 unsecured and $200,000 secured, how are they handled? Do

you think they are handled more expeditiously than your loans of $3,000, $5,000, and $50,000 could be before?

A. Oh, very definitely.

Q. How is that done?

A. Now if I have to go—well, I can cite you an example.

One of our companies, who never borrowed from us at any time, came to me and wanted a quick $200,000 loan. They had been a good customer of ours for a long time. We had all of their financial statements and everything that we needed in our credit file.

All I had to do was to make a phone call to our loaning officer in town and we approved it in two minutes.

Q. Could anything like that have been done before?

[fol. 3727] A. No, sir.

Q. All right.

Now, can you give us any illustrations of other types of service which your think have been improved with the merger?

A. Well, there is one big area in the Trust Department that is really a real benefit to a lot of our customers, which we just didn't have before. We had no Trust Department.

We have done a real job for a lot of our customers in estate planning in the trust field since our merger with Girard; and that is a service that in a lot of cases has been most important to them.

Q. You had no Trust Department before?

A. We had no Trust Department.

Q. Now, you have the services of what group?

A. Well, we have the services of what we think is the best Trust Department in this part of the country, the Girard; their entire Trust Department.

Q. What about the commercial field? Can you give any illustrations of any improved situations in the commercial-banking area?

A. The what?

Q. The commercial-banking area; any illustrations of improved service that you were unable to render before the merger.

[fol. 3728] A. Well, we are, of course, in the industrial—the Fort Washington Industrial Park are doing quite a lot of business that we couldn't have done before.

One thing that we find is that prior to the merger it was

difficult for me or us to talk our industry into keeping over $50,000 balances with us; we weren't big enough.

Now we have no problem. We have, in lots of cases, been able to have them build that up many times over the $50,000.

Q. What about small-business financing? Did you do any of that before the merger?

A. Well, we have always tried to take care of the small business in our area, which we still do on the same basis. Small business has never been a particularly difficult problem in Ambler.

Q. Can you handle financing of business customers any better now than you could before?

A. Oh, yes. I think so. In fact, I know we do.

I can cite an example of one of our furniture companies, who we were trying for several years to finance their retail sales of furniture, and because of our setup in Ambler National we could do only a fair job. In fact, we didn't have the personnel, we didn't have the collection facilities. We [fol. 3729] just weren't set up to handle this retail-financing paper on a basis on which it ought to be handled.

We referred that to our Second Street office several years ago and the Ambler Furniture Company are most happy with the setup. They tell me that if we never do anything else for Ambler or for them we have done a real job because they are very happy with the job that our Second Street office is doing for them, which is far better than we could have done in Ambler, and that we did do.

Q. As you say, it's a better job.

Can you indicate the kind of thing which you are doing now which you didn't do effectively before?

A. Well, that's handled through our Installment Department.

Q. I mean this particular furniture company, what do you do for it now that you couldn't do before?

A. We are financing the furniture on a basis that is a much more satisfactory plan to them than we were handling before.

Q. How is that handled? On the basis of installment payments, installment loans?

A. That's right.

Q. Or how? How is it done?

A. Well, we had set it up on a 12-, 24-, or 36-month basis,

with a certain amount down; and our problem came, as the little Ambler National Bank, pretty much in the collection [fol. 3730] end. We weren't——

Q. Were you equipped to do that?

A. We weren't equipped to do anything more than send out notices or make phone calls.

Apparently our Second Street office follows it up on a basis where they have a much, much better collection experience than they had with us.

Q. What effect has that had on that customer and its business?

A. Well, it has an effect on our customer; an effect that as far as he is concerned, he thinks we are now doing a much better job for him than we did as Ambler National Bank; and he is happy with it.

Q. Are there any other services that you think of that have been added as the result of the merger, which you either didn't supply or couldn't supply before?

A. Oh, yes. We have Ready Credit and Charge-Rite. Those are two particular services that we couldn't have before.

Q. I can't hear you.

A. I say Charge-Rite and Ready Credit are two services that we have now which we didn't have before, which are a big help to a lot of our customers.

Q. What about the effect of the merger on your personal activities in the bank? What is your present status now [fol. 3731] with the bank? What is your official title?

A. I am vice-president in charge of the Ambler Division.

Q. What about your present duties in your occupation? Do they differ from what you did before or not?

A. Well, yes. I am really able now to do a much better job for my customers because I have more time. I am not spending nearly the amount of time on administrative detail and things that we had to do as Ambler National Bank which now, as a branch, it relieves us of a lot of detail responsibility; so I am enabled to spend a lot more time calling on our customers and helping solve their problems on a much better basis than I could have done before because of time.

Q. What about your contact with the downtown main office?

A. Well, our contact with the main office has been most helpful. I normally spend one morning a month at the vice-president's meeting to keep me up to date with policy and what's going on at the main office.

Once a month we have a representative of the main office, usually a senior vice-president or the president or the chairman of the Board come out and discuss some phase of the banking business with our executives or our local committee which has been most helpful, not only to me, but also to our committee. It keeps them much closer in contact with banking affairs that are a little bit over and beyond what [fol. 3732] the local situation is that we have in Ambler.

Q. Does that make any difference in your ability to serve the community?

A. I think so.

Q. In what way does it help? Does it operate beneficially or otherwise?

A. Oh, beneficially, of course.

Q. What about the Advisory Board? Have you an Advisory Board?

A. Oh, yes. I say the Advisory Board is also helped by a representative once a month coming out to our division and talking to our Advisory Board.

Q. Does the Advisory Board take an active interest in the operation of your bank?

A. Oh, very definitely.

The Court: Let's take a ten-minute recess.

(A recess was had.)

By Mr. Price:

Q. Mr. Reller, I would like to ask you about service charges. There has been some talk in this case about service charges.

What has been your experience at Ambler with service [fol. 3733] charges?

A. Well, there have been some changes.

Q. Did you have them in the Ambler National Bank?

A. Oh, yes. We had service charges.

Q. How long had you had them?

A. We originally put service charges in in the Ambler National Bank in 1925.

Q. 19-what?

A. 1925.

Q. 1925?

Then, when the merger took place with the Girard, what changes, if any, occurred?

A. Well, they were changed slightly. Take, for example, special checking accounts. Our Ambler National service charge was 10 cents per check and 25 cents a month service charge or maintenance charge.

The change there was to 50 cents a month service charge and 8 cents a check.

Q. How did that average out in the long run?

A. It averaged out very closely to the same. On the average, the average cost to the customer was very close one way as against the other.

Q. And over-all, the changes in the service charge had what effect on the service charges, the amount of service [fol. 3734] charges you had had before the merger?

A. The effect was not very great. I mean, there wasn't very much. It may have gone up slightly, but not very much. I don't have those figures:

Q. I am sorry.

A. I don't have the figures, but our rates, our costs on our regular checking account were practically the same prior to the merger as they were after the merger, or very near.

Q. What effect, if any, did that have on the business that you did? Did you lose any customers?

A. Very, very little that we could trace to service charges.

Q. Did you have any power to impose your rates of service charges on any of your competitors?

A. On our competitors!

Q. Yes.

A. (No response.)

Q. I can't hear you.

A. I didn't follow the question exactly.

The Court: Read the question, Mr. Lennox.

(The pending question was repeated by the reporter.)

The Witness: No, sir.

By Mr. Price:

Q. Have your competitors service charges of their own?

[fol. 3735] A. Oh, yes.

Q. Do you find that the amount of service charges varies from yours or makes any appreciable difference in the competition you have with those other banks?

A. I wouldn't think there was enough difference in the service charges, and I haven't checked our competition service charges for some time.

But the last time I saw their schedule, they were very close to ours. I wouldn't say enough difference to really affect any accounts.

Mr. Price: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Reller, were you a stockholder of the Ambler National Bank when it was acquired?

A. Yes, I was.

Q. Were you the largest stockholder in the bank?

A. Oh, no.

Q. You were a substantial stockholder?

A. Well, our policy at Ambler National Bank, when I was in there, was not to leave anybody get control.

Nobody had more than 5 per cent of the stock.

Q. Did you have 5 per cent?

A. No.

[fol. 3736] Q. What per cent did you have?

A. I will have to figure it out.

Between—personally, I had probably 2 per cent. Between my wife and myself, probably pretty close to 4 per cent.

Q. Was this a family-owned bank?

A. Oh, no.

Mr. Price: I can't hear you, Mr. Reycraft.

Mr. Reycraft: I asked whether it was a family-owned bank.

The Witness: Oh, no; definitely not.

By Mr. Reycraft:

Q. At the time of the merger with the Girard you received stock of the Girard in exchange for your stock; is that correct?

A. That's right.

Q. And all of the stockholders did?

A. That's right.

Q. You are now a stockholder of the Girard?

A. I am.

Q. At the time of the merger you also received an employment contract for life; is that right?

A. For what?

Q. For life.

[fol. 3737] A. For life?

Q. Until retirement.

A. (No response.)

Q. Did you receive one until retirement?

A. No, sir. I didn't ask them for it and they didn't offer it to me, so I am employed on an annual basis only.

Q. Do you know Mr. Jim Henderson?

A. Yes, I do.

Q. What bank is he with?

A. Well, he used to be with Broad Street. I guess he still is.

Mr. Price: I am sorry, I can't hear you, Mr. Reller.

The Witness: Broad Street Trust.

Mr. Price: Thank you.

By Mr. Reycraft:

Q. The Broad Street, though, wanted to acquire your bank, didn't they?

A. Oh, yes.

Q. And they made you an offer?

A. Oh, yes.

Q. And they did offer you a contract until your retirement date?

A. Oh, yes; and for a lot more money than I took with [fol. 3738] Girard, too.

Q. And the Philadelphia National Bank wanted to acquire your bank, too, didn't they?

A. Oh, yes.

Q. Did you give them all an opportunity to bid when you finally decided to sell your bank?

A. We didn't ask anybody to bid. They made us offers. When they made us an offer our Board would consider it and decide what they wanted to do.

Q. Did any of your directors, so far as you know, ever promise Mr. Potts that when the time came to sell the bank they would give Philadelphia National Bank an opportunity to bid on it?

A. (No response.)

Q. Now let me show you a certain memorandum. 79-G was our original number.

Mr. Price: What is it?

Mr. Reycraft: 79-G.

Will you mark as Government's Exhibit 248 a memorandum from Mr. Harry Kilpatrick to Mr. Geoffrey S. Smith as of May 26, 1955.

(Memorandum dated May 26, 1955, from Harry Kilpatrick to Mr. Geoffrey S. Smith was marked Exhibit G-248 for identification.)

[fol. 3739] By Mr. Reycraft:

Q. Would you examine that document, sir?

Would you read the last sentence of that memorandum aloud, sir?

Mr. Price: Objected to.

The Court: Read the question.

(The pending question was repeated by the reporter.)

The Court: Then there is an objection to it?

Mr. Price: Yes, sir.

The Court: I will sustain the objection.

By Mr. Reycraft:

Q. Mr. Reller, do you recall telling Mr. George Scherff of the Ambler Trust Company that Messrs. Coxe, Ingersoll, and Wear, who were directors of the Ambler National Bank, had promised Fred Potts of the Philadelphia National Bank that at any time they considered selling the bank they would give him an opportunity to make a bid?

Mr. Price: Objected to.

The Court: Overruled.

The Witness: That, I don't think—I don't think this is quite the way this happened. There was discussion on this amongst us.

The Court: Keep your voice up.

[fol. 3740] Read that answer so far.

Keep your voice up.

(The testimony was repeated by the reporter as follows:

"The Witness: That, I don't think—I don't think this is quite the way this happened. There was discussion on this amongst us.")

The Court: Go ahead. Finish your answer, if there is any more to it.

The Witness: As far as I knew, there were no definite commitments made on anybody's part.

By Mr. Reycraft:

Q. That is the best of your recollection?

A. That's right.

Q. And reading this exhibit does not refresh your recollection as to that?

A. As far as I know, there were never any definite commitments made.

Q. Do you have any knowledge of whether Mr. Potts did, in fact, discuss acquiring your bank at all with the directors?

A. I didn't get that.

Q. Do you have any knowledge as to whether Mr. Potts did discuss acquiring your bank with these directors?

A. I believe that there were discussions. At least, my [fol. 3741] directors at that time (these directors involved), at least one or two of them told me that they had discussed it with Mr. Potts.

Q. They did tell you?

A. That they had discussed the merger with Mr. Potts.

Q. Yes. And it was your position at the time, was it not, that you weren't prepared to sell your bank, not quite yet?

A. Well, we felt at that time we were doing a pretty good job out there; we weren't too sure we ever wanted to sell at that time. We hadn't made up our minds.

Q. You were quite satisfied with the way your bank was progressing?

A. We were doing a nice job and we were happy with it.

Q. You thought you were doing a good job for your community and for your customers?

A. (No response.)

Q. What is your answer?

A. Yes, sir.

Q. Did you receive an offer from the Girard in 1955?

A. I would say that we received an offer and I would suppose that's about the time. I am not sure of the date.

Q. Did your bank reject the offer?

A. Yes, we did.

Q. So that within the same year you had discussions with [fol. 3742] both the Philadelphia National Bank and the Girard Trust with regard to the acquisition of your bank; is that right?

A. That is correct.

Q. Did you have a formal offer from the Girard?

A. (No response.)

Q. Will you state your answer orally, please?

A. Yes, sir.

Q. What premium were you offered by the Girard in 1955; do you recall that?

A. 1955? I can't tell you. I have forgotten.

I don't know whether it was fifty-five or what it was. I have a record of it somewhere, but not here. I don't remember.

Mr. Reycraft: Will you mark as Government's Exhibit 249 a letter dated November 28, 1955, signed by Geoffrey S. Smith to Mr. Walter Reller, President, Ambler National Bank.

(Four page letter dated November 28, 1955, from Geoffrey S. Smith to Walter Reller, President, was marked Exhibit G-249 for identification.)

Mr. Price: If Your Honor please, I object to this type of examination or this line of examination. It has nothing whatever to do with any of the issues involved in this case [fol. 3743] I don't mind Mr. Reycraft asking him anything as long as it relates to what we are trying here; but I object to this on the ground that it is irrelevant.

The Court: What is the purpose of this, Mr. Reycraft?

Mr. Reycraft: I beg your pardon. It shows, Your Honor, the competition among several banks in the Philadelphia area to acquire this bank; and this is one method of competition among them. They are all trying to pick up these small banks.

It shows that they are paying very substantial premiums, for example, in this case the Girard offered 89 per cent over the current net worth, 6.9 per cent over the deposits of this bank.

I think that this line of questions shows that this is the motivation for the merger and not any desire to increase the service for the community or to assist depositors in the area.

The Court: You mean to make profit?

Mr. Reycraft: I beg pardon?

The Court: To make profit?

Mr. Reycraft: Yes, sir.

The Court: The fundamental basis is so that they could make a profit.

[fol. 3744] Mr. Reycraft: Yes, sir.

The Court: I don't think that that is in dispute from the very first word spoken in this case.

Mr. Reycraft: It goes, Your Honor, to his opinions as to the effect of the purpose of the merger and the effect on competition.

The Court: Make your examination on this very short. I am going to permit it, but keep it very short.

Mr. Reycraft: All right, sir.

The Court: I don't think it has any great value.

By Mr. Reycraft:

Q. Do you recall the fact that your bank was offered a premium of 89 per cent over the current net worth in 1955 by the Girard?

A. I know that we were offered a premium. I am not sure that is the correct——

Q. If you will refer to the second page of this letter to you I believe the paragraph in the middle of the page may refresh your recollection.

The Court: He said it would be a premium of a hundred per cent of market value. That is the third from the bottom.

[fol. 3745] By the Court:

Q. That is the statement made in there, isn't it?

A. Yes. 89 per cent of our current net worth is stated in here, and I presume that was a correct figure at that time.

By Mr. Reycraft:

Q. And if based on market value it would be a hundred per cent over market value?

A. Yes. I believe it would work out about on that basis.

Q. Now, did you, Mr. Keller, in 1957, have any discussions with Mr. Smith as to opening branches, new branches of the Ambler Bank?

The Court: I wasn't paying attention. Will you read that question back?

(The pending question was repeated by the reporter.)

The Court: Thank you.

The Witness: After our merger was approved by both Ambler National Bank and the Girard, yes, we had discussions.

By Mr. Reycraft:

Q. When was the merger approved?

The Court: He said October of 1957.

The Witness: No, that is when it became effective. It was [fol. 3746] approved by our Boards probably three or four months prior to that time.

I don't have those dates here at my fingertips.

By Mr. Reycraft:

Q. But prior to that time you don't have any recollection of discussing any branches with the Girard?

A. Between the time, yes—between that time, then we discussed it, I am positive.

[fol. 3747] Mr. Reycraft: Will you mark as Government's Exhibit No. 250 a memorandum signed by Geoffrey S. Smith dated January 4, 1957.

(Memorandum signed by Geoffrey S. Smith, dated January 4, 1957, re Ambler National Bank, was marked Exhibit G-250 for identification.)

By Mr. Reycraft:

Q. Will you refer to the second paragraph of that memorandum and see whether it refreshes your recollection.

A. Yes, I guess we had discussion prior to that, early in 1957. We had approval for a branch there a year and a half before we actually opened it. I think we had three six-month extensions.

Q. And you had this discussion before the merger was approved?

A. Apparently, according to this letter, we did, this discussion.

Q. You now recall that?

A. Yes.

Q. At that time the Girard was one of your competitors, weren't they?

A. To a degree, yes.

Q. And your purpose in discussing this branch opening was to make your bank more attractive as a merger candidate; isn't that correct?

[fol. 3748] A. That probably was a consideration, but certainly with the Industrial Park coming in the area we knew that we would have to open a branch in there if we wanted to take care of the industry coming in.

Mr. Reycraft: I have no further questions.

Redirect examination.

By Mr. Price:

Q. Mr. Reller, you said that in 1955 somebody was asking you about the possibility of a merger. You said you thought you were doing a pretty good job in the community.

A. Right.

Q. After the merger took place you found you hadn't been doing as good a job as you thought, didn't you?

A. Yes, but after the merger we continued to do a good job and in certain areas a better job, because we couldn't do some of the things as a little community that we can now do as a branch of a larger bank.

Q. Are you doing a better job now than you were doing before?

A. We are doing a better job and it is much more inclusive. We are able to give our customers now a much broader service than we could give them before.

Q. And as far as the price was concerned, that has proved [fol. 3749] a profitable investment for the Girard, has it not?

A. Well, I hope so.

HERBERT W. RITTER, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Ritter, what is your present occupation?

A. Vice-president in charge of the Consumer Credit Department of the Girard Trust Corn Exchange Bank.

Q. How long have you been connected with the Consumer Credit activities of the Girard?

A. Since August of 1953.

Q. Will you give me briefly a description of the activities of your department and the area in which you operate.

A. We are responsible for the cultivation and servicing of both direct and indirect installment loans to individuals and business.

Q. And over what area do you operate geographically?

A. I would say we operate over an area of about five or six states.

Q. Which are they?

A. Pennsylvania, Delaware, New Jersey, Maryland, Virginia, and in some cases into Ohio.

[fol. 3750] Q. You spoke of direct and indirect activities. Will you define first the direct.

A. The direct activities would be those activities in which we contact or the indivlduals contact us directly for their loans. In other words, they come into the bank themselves to arrange for the loan. An indirect loan would be a loan which we would purchase from a dealer or a contractor, modernization contractor, or someone of that type.

Q. Then would it be correct to say in general that the direct lending is the personal lending to an individual, whereas the indirect is the financing of a purchase through a dealer with whom the individual has had the contact?

A. That is correct.

Q. You have no contact with the individual in the indirect type of loaning?

A. The only time would be when we were trying to collect a loan.

Q. Confining yourself to the direct lending first, what is the volume of that business?

A. In the direct business?

Q. Yes.

A. On our direct business I would say that that makes up about one-third of our total volume. Our total volume at [fol. 3751] the present time of outstandings is approximately 73½ million.

Q. 73½?

A. That is correct.

Q. And a third of that is the direct?

A. That is correct.

Q. What type of financing does that represent? What are the loans made for?

A. The loans in our direct category would be personal loans, direct automobile loans, revolving credit loans, and our Charge-Write loans.

Q. You spoke of automobiles particularly as a commodity which is being financed. Are there any other commodities that are financed in that way?

A. As a direct basis?

Q. Yes.

A. There could be some loans that people would come in directly to borrow money for appliances or for home modernization and things of that type, yes.

Q. But is that largely done by the indirect method?

A. That is correct, yes.

Q. Then for the direct method what are the types of loans that you make, the amounts and rates, and so on?

A. Well, on the direct loans, loans in the direct loan category would go up to approximately $3500. The rates on [fol. 3752] those are governed by law, up to 6 per cent.

Q. Are those loans always made to purchase a piece of equipment like an automobile or a washing machine?

A. No. Mostly on personal loans they are for personal reasons—for medical bills, hospitalization, vacations, personal needs, as opposed to buying durable goods, such as an automobile or an appliance.

Q. How does that kind of loan get into your department, Consumer Credit Department?

A. Those loans come into the department usually through advertising in our local newspapers, through our branches, local papers, the major papers, radio advertising, and so forth. The individuals come into our bank and apply to our loan interviewer or the branch or assistant branch manager for the loan.

Q. Why are they handled in the Commercial Credit Department rather than the general commercial banking?

A. They are handled in the Consumer Credit Department.

Q. Consumer Credit, excuse me, instead of the Commercial Banking Department.

A. Because they are installment in nature, payable over a 26 or 36-month basis.

Q. Then all of your loans are installment?

[fol. 3753] A. That is correct, sir.

Q. Are they ever made for general business purposes, as distinguished from buying a piece of equipment?

A. Yes, we do. We have approximately one-third of our loans for business purposes.

Q. How are they secured?

A. They are secured with liens on equipment, conditional sales agreements, and so forth.

Q. Does that cover in general the direct lending activity?

A. Yes, sir.

Q. And with what other institutions are you in competition for that type of business?

A. Consumer credit business I think is one of the most competitive businesses in the City of Philadelphia or in any area of the country. Our competition in Philadelphia would

be all of the commercial banks—Philadelphia National, First Pennsylvania Company, Provident Tradesmens, Central Penn, Fidelity-Philadelphia, Liberty Real Estate, Industrial Trust, Broad Street Trust, Second National, all of them, including all of the suburban banks who are interested in personal loans, banks such as Peoples Bank in Norristown, Delaware County National Bank, Bryn-Mawr Trust Company, Doylestown National Bank, and Bank of Levittown and also we have competition from First Camden and [fol. 3754] Camden Trust in New Jersey.

Q. They all handle this type of loan?

A. That is correct. Now, we also have competition from hundreds of small loan companies and consumer discount companies in the area. Those companies are almost too numerous to mention, but they are such companies as Household Finance, Seaboard, Lyons, Ritter, Ellis, Aetna, Public, Beneficial, and many others.

Q. Now, with reference to the indirect financing, what does that usually cover? What type of equipment is financed there and what are the different groups, if they are divided into groups?

A. You are talking now about dealer business, indirect loans?

Q. Yes.

A. In the dealer business that would cover many areas, such as automobiles, mobile homes, modernization loans.

Q. What is a mobile home?

A. A mobile is a house on wheels, in effect.

Q. You mean a trailer?

A. It is a house trailer, that is correct. They dignify it by calling it a mobile home.

Q. Is there any kind of trailer besides a house trailer, [fol. 3755] that is, some special category?

A. Well, there are mobile banks. They have portable cars that they have for railroads, for use in facilities for dressing purposes for road crews. They have portable offices and items of that type.

Q. I interrupted you. What other type or classification of equipment is financed this way through the dealers?

A. We finance prefabricated homes, appliances, furniture. Also we finance our tuition loans on an indirect basis.

Q. I would like to know the nature of the competition

that exists for these various types of loans and whether it differs by type or whether the competition is the same for all of the various categories that you mentioned.

A. The competition varies from type to type. Some of the competition is the same and some of it is varied. In the automobile business your competition in Philadelphia and its surrounding territory would be from those banks who are on an indirect and direct basis, such as the First Pennsylvania Company, Philadelphia National, Central Penn, and Provident Tradesmens.

In addition to that, all of the banks in Philadelphia are out looking for direct automobile loans which is in competition to the indirect, so that Broad Street Trust, Fidelity, Liberty Real Estate, Industrial Trust, and all the other banks, in-
[fol. 3756] cluding the suburban banks, such as Delaware County National, Bryn Mawr Trust and so on, would be in competition for these loans.

In addition to that, there is competition from Allstate Insurance Company under a bank agent's plan, and also competition from the Keystone Insurance Company with their bank agent plan.

On top of that you have G.M.A.C., Ford Acceptance, C.I.T., Commercial Credit, Commercial Banking Corporation, Automobile Banking Corporation, and many, many others.

Q. They are all active competitors for that type of business?

A. For the automobile business, that is correct.

Q. Give me another type and tell me whether the competition is different or if it is the same.

A. We discussed mobile homes. Mobile home competition is wide and varied, because you have to reach out for that business. It goes over several states. Our competition there would be Philadelphia National Bank, Wilmington Trust Company of Wilmington, Equitable Trust Company of Baltimore. On a national basis it would be from Michigan National Bank and Union Bank of Michigan, American Security of Washington, the First National Bank of New Jersey, New Jersey Bank and Trust Company, Trenton
[fol. 3757] Banking, and many others.

Q. That is the mobile home you are speaking of?

A. That is correct. In addition to that there are finance

companies who finance mobile homes. Most of them are usually subsidiaries of the manufacturers themselves. There is Crusader Finance Corporation, Farmers and Merchants Investment Corporation, who are subsidiaries of Vought Industries. Detroiter has a company, Mobile Home Finance Company. There is Spartan and Pioneer Finance, and there are many local national banks who finance certain dealers in their own particular area.

Q. That seems to be a somewhat larger area of competition than automobiles themselves?

A. Yes, it is.

Q. Why is that?

A. Well, it is because mobile homes you won't find concentrated in a city area. There are certain zoning restrictions, so that they are restricted to suburban or out on the farm areas or out along the highway somewhere, so that your areas are spread. The big areas are mostly New Jersey, Western Pennsylvania, only one that I know of in Philadelphia. They are scattered down through the South. They are mostly concentrated around service installations [fol. 3758] and construction work and things of that type.

Q. You mentioned a Michigan bank. Did I hear you correctly?

A. That is correct.

Q. What brings a Michigan bank into the eastern part of the United States?

A. Michigan National and Union Bank of Michigan are the pioneers in the mobile home field, and at one time they controlled the mobile home business throughout the country. Slowly but surely other banks became interested in the field, and over a period of time competition became keener and keener, so that now they are no longer the factor in this area that they were before, because local banks and regional banks along the east coast are taking care of the needs of their own mobile home dealers in their areas.

Q. When the mobile home financing started were these two Michigan banks the only ones that financed that type of equipment?

A. I can't say for sure, but they were the pioneers, and there were very, very few who got into the field at that time, and it took a lot of convincing on many people's part to do a job.

Q. Approximately how long ago was that?

[fol. 3759] A. I would say that up until about 1952 they had the field pretty well to themselves. Back in 1953, 1954, 1955, more banks started to get interested in that field. We ourselves went into the field in 1955.

Q. But you didn't finance mobile homes before that?

A. No, sir, and I had a hard job convincing management to finance them at that time.

Q. Since that time the competition has been increased, as you described it?

A. Yes, sir.

Q. What is the relative position now of these Michigan banks?

A. I would say they still hold a strong position, but I think they are concentrated more in the West and the Southwest and they are along the east coast at the present time.

Q. But originally did they finance these pieces of equipment along the east coast as well?

A. That is correct.

Q. All right, another type of competition.

A. The next category, and one which is a large category would be the financing of modernization loans, which is not equipment or things of that type, but it is modernization of homes with porches or garages or a new kitchen, and so [fol. 3760] forth.

Q. That is modernization of dwelling houses?

A. Dwelling houses, that is correct.

Q. Is there any distinction between that and the modernization of business places?

A. We would carry that in our commercial modernization, because you are dealing with business as opposed to an individual.

Q. This modernization covers what area geographically?

A. I would say that on modernization we are restricted principally to about three states, Pennsylvania, Delaware, and New Jersey.

Q. And your competition there is what?

A. Competition on modernization loans again would be the First Pennsylvania Company, Philadelphia National, Central Penn, Provident Tradesmens, Frankford Trust Company, and Second National Bank. Again, the banks in

the suburbs, because again they make direct loans for modernization. Your competition also would be your small loan and your consumer discount companies, because they all make loans for those purposes. In addition to that there are some of the national finance companies, like C.I.T., Commercial Credit, Allied Builders Credit Corporation, [fol. 3761] and the Commerce Investment Company, who make loans of this type.

On top of that you have all of your federals, and savings and loan associations, plus your building and loan associations; so it is a very crowded field competitionwise.

Q. What is the next category?

A. The next category would be your prefabricated homes. This is a category which is again widespread. There are at this point not too many banks that have gotten in, although more and more I would say that prefabricated homes are at the point now where mobile homes were four or five years ago. Our competition on that would be from First Pennsylvania Company and Central Penn. Wilmington Trust Comapny and Equitable Trust of Baltimore are companies that also finance it, and finance companies would be two insurance companies, Stuyvesant Insurance Company of Allentown and the Guardian Life Insurance Company of New York City. Barco, which is a subsidiary of Bankers Securities Corporation, Certain-Teed Products Corporation and Allied Builders Credit Corporation, C.I.T., and Commercial Credit.

Q. What is the geographical area in which those houses are scattered?

[fol. 3762] A. At the present time they are in Maryland, Delaware, Pennsylvania, New Jersey, I believe some in Ohio, not too many.

Q. The next category.

A. The next category would be appliances. Appliances can be handled either on a direct or an indirect basis. Your competition as far as indirect would be First Pennsylvania Company, Provident Tradesmens, Central Penn.

Q. The same group?

A. The same group as before. In addition to that you would have your small loan and your finance companies again, in addition to such national sales finance companies

as General Electric Credit Corporation, Philco, Westinghouse, Sears, and Redisco.

Q. When you speak of Philco and Westinghouse and General Electric, you mean they are financing their own sales?

A. That is correct, sir, for the dealers.

Q. Next.

A. The next category would be tuition. This is a field that we are in more or less on an indirect basis while most of the other banks are on a direct basis. We operate directly through the schools and colleges and universities. We are in [fol. 3763] competition with direct loan plans from all of the banks, without repeating them, in Philadelphia, many of the suburban banks. In addition to that there is national competition from Tuition Plan, Incorporated, of New York, which is a subsidiary of C.I.T. and the Knight Plan of Boston.

Q. Over what area do the institutions extend which are financed in this manner?

A. I would say most of the colleges and universities and schools are within a 200-mile radius of Philadelphia, but the students come from all over the United States and out of the country.

Q. Any other categories?

A. That would complete the indirect.

Q. Let me ask you, before you get to the next one, is that a substantial volume of financing?

A. Yes, it is a substantial volume, but it starts at a peak in the fall and runs down toward spring. In other words, last year we put on approximately 7½ million dollars in loans. At the present time they are down to a million 7.

Q. Any more?

A. We have a third of our business in direct and indirect loans to business. This would be the financing of equipment, [fol. 3764] such as machinery and equipment, heavy commercial vehicles, tractors, trailers, heavy road construction equipment, the fleet rentals of automobiles and trucks, tractors, and trailers. This, naturally, is one of our largest categories, and it is directly to business as distinct from an individual. You are doing business with commercial houses or commercial companies.

Q. How large do some of these individual loans run?

A. They can run as high as two to three to four million dollars.

Q. Big heavy equipment?

A. That is correct, and because they are installment in nature they are handled in our department.

Q. Anything else?

A. The only other category—would you want the competition on that, the heavy equipment?

Q. Yes.

A. We can bundle it together, because most of the companies run together. Again in our department we handle these installment loans to businesses. Well, as in most other commercial banks, they are handled in the Commercial Department. Because of certain specialization in our department we are able to handle those loans in our own division.

[fol. 3765] The competition here would be all of your commercial banks. Again First Pennsylvania Company, Provident Tradesmens, Philadelphia National, and so forth.

Q. Don't mention them again if they are the same category.

A. There is a great deal of competition from national sales finance companies such as J. I. Case, American Acceptance, Yellow Manufacturing Acceptance, Keystone Acceptance, G.M.A.C., Ford Acceptance, Fruehauf Trailer Credit Corporation, International Harvester.

Q. You didn't mention the wholesale category.

A. We carry that in our commercial division. It is a type of financing, and we offer exactly the same thing as we do in order to get the retail business. Your competition there is the same as it would be in the retail automobile, because it is tied directly in with the automobile business.

Q. What has been the change, if any, in this type of financing in the last ten years?

A. I would say it is getting more and more competitive all the time.

Q. More and more people are getting into it?

A. That is correct, sir.

[fol. 3766] Q. What is the average term of the loan that is made in your department?

A. Well, it would vary according to category. It could be

anywhere from 12 months up to five years. In some cases we go to seven years.

Mr. Price: Cross-examine.

Cross-examination.

By Mr. Reyefaft:

Q. Mr. Ritter, of the categories of loans that yo[u] described, how many of them fall into the category of loans to individuals, installment, under $50,000?

A. How many would fall under that?

Q. Yes, sir.

A. I would say—this would have to be an educated guess—

Q. Surely.

A. The loans, installment, to individuals—do you want the direct or indirect?

Q. Both.

A. I would say on the direct that practically all of them would fall under $50,000 in category. On the indirect I would say again they all fall under $50,000. The only time that we would go over $50,000 in loans in our department would be in our commercial categories.

[fol. 3767] Q. All of the loans you have been discussing are loans under $50,000?

A. With the exception of the business loans. They would be the equipment loans and fleet rentals, and so forth.

Q. Do you know what percentage of the business of the Girard Trust Corn Exchange Bank in that category originates in the four-county area?

A. I wouldn't know offhand, sir.

Q. Have you examined any statistics to see?

A. No, I haven't.

Q. I would like to have you refer, if you will, to D-30. On the third pa[ge] of D-30 will you refer to category 6a through d, loans to individuals, installment, under $50,000. That category indicates, does it not, that 55 per ce[nt] of all the Girard's loans in this category originate within the four-county area?

A. I don't see the figure 55 here. Yes, I do.

Q. The figure 45 appears, and that is outside.

A. Yes.

Q. So you would agree that that exhibit indicates that 55 per cent of all of this business originates within the four-county area.

By Mr. Price:

[fol. 3768] Q. Have you ever seen this exhibit before?

A. No, sir. In fact, I don't know who prepared it.

I would say approximately that it would be correct, though.

By Mr. Reycraft:

Q. And it indicates, as far as Philadelphia National is concerned, about 75.2 per cent originates in the four-coun' area, doesn't it?

A. I don't know anything about Philadelphia National figures.

Mr. Price: The exhibit speaks for itself. The witness never saw it before, and I object to his being asked to interpret something he knows nothing whatever about.

Mr. Reycraft: The exhibit does speak for itself, and it shows 75.2 per cent, and it indicates also, as far as the combined banks are concerned, 65.4 per cent would originate within the four-county area.

By Mr. Reycraft:

Q. Now, for any of the categories of loans that you referred to in your direct testimony, Mr. Ritter, would any of those come under the category of commercial and industrial loans?

[fol. 3769] A. I would think that the commercial categories which I mentioned at the end of my testimony would come under that classification.

Q. And what would be the range in terms of dollars of the largest loans?

A. Those loans would run anywhere from as low as $5000 on up to several million, as I mentioned in my earlier testimony.

Q. And D-30 indicates, if you will refer to category 5, that 66.9 per cent of Girard's loans in the under $50,000

category originate in the four-county area and 69.7 per cent of the loans of $50,000 to $500,000 originate within the four-county area, and with the combined bank 70.3 per cent of the loans, commercial and industrial loans under $50,000 each, would originate within the four-county area.

Now, may I ask you, sir, whether you examined any of these statistics before your testimony on the sources of your competition?

A. No, sir.

Q. You don't have any reason to doubt their accuracy, have you?

A. No, I don't.

Q. Will you agree that, as far as the categories of loans [fol. 3770] that you have described, the four-county area is the most important source of business for your bank?

Mr. Price: Objected to.

A. No, I would not.

By Mr. Reycraft:

Q. Would you agree that if is the largest source of business for your bank for loans of this category?

A. The largest source came from what category?

Q. Originates within the four-county area for the categories that you have testified about.

A. No, I would not.

The Court: Did he go into any specifics on that or was he called to give the type of competition that he had?

Mr. Price: He was called to give the types of competition for the various classes and categories of installment loans, that is all.

Mr. Reycraft: And he testified about the market area also, about geographic sources of competition.

The Court: He said he did business within those. He didn't specify how much at any time.

Mr. Reycraft: No. That is right.

The Court: And I don't think he has tried to break it down. He just gave it to us by states.

[fols. 3771-3772] Mr. Price: That is right.

The Witness: That is correct.

The Court: He didn't go beyond that. He stated where he

did business, without reference to any particular amount, percentage, or anything else.

Mr. Reycraft: Yes, I don't think he went into those.

The Court: All right. There has been an objection to this line of inquiry of this witness from Exhibit D-30, and I am going to sustain the objection, and with that we will adjourn court.

(Adjourned at 4:00 o'clock P.M. until Wednesday, July 26, 1961, at 10:00 o'clock A.M.)

[fols. 3773-3774] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

[Title omitted]

Civil Action No. 29287

TWENTY-THIRD DAY

Philadelphia, Pa., July 26, 1961

Before Hon. Thomas J. Clary, J.

[fol. 3775] HERBERT W. RITTER, resumed.

Cross-examination. (Continued)

By Mr. Reycraft:

Q. Mr. Ritter, yesterday in your testimony you indicated types of competition which your bank received in the loan activities in which you are engaged. Will you tell me whether you have any statistical information concerning sources of that competition.

A. Statistical information?

Q. Yes.

A. The names and the information that I gave yesterday were from my own practical experience and knowledge of our competition.

Q. Yes, I understand. You have made no statistical study of the quantity of the business that is in competition with your bank, have you?

A. No, I have not.

Q. Or the geographic area from which it originates?

A. I know from practical experience.

Q. You know that there have been loans from certain areas from time to time?

A. That is correct.

Q. But you don't know how many in the aggregate?

A. That is correct.

[fol. 3776] Q. Do you consider that branches of the Philadelphia National Bank and Girard Trust Corn Exchange Bank which are as much as five miles apart compete for this type of business?

A. In the general field of personal loans I think all of the banks in all of the areas are competing with each other, because of the type of advertising that is done. It depends on location, and it is mostly a matter of convenience, and the people will go to the closest branch to them.

Q. But you think they are in active competition throughout the area for business of this type?

A. I wouldn't want to say as far as four or five miles or any amount of miles, as far as distance is concerned.

Q. I believe I understood you to testify yesterday that, for example, a Michigan bank was in competition with your bank for loans of this type; is that right?

A. That is correct.

Q. And would you agree that a branch bank which is five miles from another branch is also in competition for this type of business?

A. I think when you are talking about a Michigan bank you are talking about mobile homes, which is widespread over many states in a wide area. When you are talking about competition with branches, you are discussing personal [fol. 3777] loans, and I think they are two entirely different subjects.

Q. So that for personal loans, then, you think the competition is more restricted?

A. I would think it is confined to a much closer area than it would be for mobile home loans, yes.

Q. Would it be limited to the four-county area, in your experience?

A. No, it would not be.

Q. It would include banks, for example, outside the four-county area?

A. Yes, sir.

Q. Would it include branches of the Girard which are, say, five miles from a branch of the Philadelphia National Bank?

A. I would say it would, yes.

Mr. Reycraft: That is all I have.

Hubert J. Horan, Jr., having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Horan, you are a member of the Bar?

A. I am. I have been a member of the Bar since 1911.

[fol. 3778] Q. And you became a banker when?

A. I was elected to the presidency of the Broad Street Trust Company in May of 1938.

Q. And since that time have you been president of the bank?

A. I have been president up until about a year ago, when I became chairman of the Board and chief executive officer.

Q. Mr. Horan, will you tell us something about that bank after you became president, with particular reference to its condition at the time you did become president.

A. The day that I was elected president of that bank, first of all, I discovered over the weekend that the bank was insolvent, which I didn't know. I was the lawyer. The bank had deposits which aggregated $1,827,000, and today, at the close of business Monday, which is the last day that

I have gotten the report, because I don't get it until around 11:00 o'clock, we had deposits of $146,188,000, of which $73 million as a result of mergers that we had with different banks. The remainder was growth of itself which represented approximately one-half of the total deposits outstanding at the present time.

[fol. 3779] Q. What was the approximate payroll at the time you took the bank over?

A. I think it was $30,000, $30,000 or $35,000 a year, including the officers and employees.

Q. And now it is approximately what?

A. I am sorry to say that it is now running at the rate of $241,672 a month, or last year the total payroll was $2,900,000, including a bonus.

Q. During the period of this growth of your bank did any substantial bank mergers take place in Philadelphia?

A. Yes, sir, a great many. The Pennsylvania Company grew to be over a billion dollars. The Girard Trust Company had quite a number of mergers, and practically every one of us had mergers of different degrees.

Q. And in 1951 the Girard merged with the Corn Exchange?

A. Yes, a very large one.

Q. And then the Pennsylvania Company likewise had mergers?

A. They merged with the First National and a lot of smaller banks.

Q. What effect did those banks, both before and after the mergers, have on your business?

[fol. 3780] A. They had no harmful effect of any kind or description.

Q. Was the condition changed at all by the merger that took place?

A. In many instances it did us good.

Q. How?

A. For example, the Pennsylvania Company took over the old Kensington National at Front and Girard Avenue. We had an office, which was then our main office, at Broad and Stiles, which is a half square north of Girard Avenue. We tried to get as much business as we could. We got some, but as long as the ex-president worked with the Pennsylvania Company, we had difficulty getting it, but when he died, we

were able to get a very considerable amount of business from the old Kensington National, because the people were nearer the main office and came in contact with the principal officers of the Broad Street Trust rather than with people whom they didn't know. They had known the old president and they stuck there till he died.

Q. Was there any similar situation connected with any of the Girard mergers?

A. Yes, we have taken some accounts from them. As a matter of fact, I know of four or five accounts—I have been [fol. 3781] told; I don't know personally, for I haven't talked to the people, but I have been told by our officers—four or five accounts of substantial amount, which have primary and secondary accounts, as large depositors generally do, one in the Girard and one in the Philadelphia National, who have promised us the secondary account if and when the merger goes through.

Q. Is that a common or an unusual occurrence to take place after a merger of two large banks?

A. It all depends upon the question of the personalities involved. If someone is a friend of mine and he has been dealing with, we will say, the Kensington National Bank, and the Kensington National is taken over by the Pennsylvania Company, and he knows no one in the Pennsylvania Company, he will come to Broad Street Trust—or a friend of some of our officers—and the same thing is universally true.

Q. You indicate from that that it is a matter of personal contact rather than other considerations?

A. I beg your pardon?

Q. You indicate that it is a matter of personal contact?

A. There is absolutely in my mind no question about it.

[fol. 3782] Q. What in your opinion would the size of a bank have to do with its ability to get deposits away from another bank?

A. Well, of course, it would depend upon the size of the company. We have a lending limit now of $1,200,000 on an unsecured basis, and we can lend an additional 25 per cent of the $12 million on collateral of an ascertained market value. Now, the people who would be borrowing that kind of money represent the overwhelming majority in numbers

of the corporations and individuals in the country, and therefore there would be no reason why they would have to leave Broad Street to go to Girard, because they could get all the accommodation they could use or anybody would lend them, and therefore they would stay with us or come to us if we had contacts that justified them in coming.

Q. Well, assuming that the customer was in the group that you have just described and therefore didn't need an accommodation in excess of a million dollars, would there be any power on the part of a much larger bank to take that customer away from your bank?

A. I think it would be just the opposite effect. I think that the man would very much prefer staying with us, if he had been with us for years, because there would be no motive [fol. 3783] for his going to the larger bank, of any kind or description. He wouldn't get anything that we couldn't give him. He wouldn't get any more than he needed in the way of accommodation.

Q. Aside from that, would the larger bank have any advantage over the smaller bank, in your opinion?

A. All I can say is that there is scarcely a location that we have that isn't in active competition with some of the larger banks in Philadelphia. We opened an office in April of 1960 at the southeast corner of 4th and Market. At the northeast corner of 4th and Chestnut is the Provident. The Girard is down there at 2nd and Chestnut. The Pennsylvania Company is between 3rd and 4th on Chestnut. The Philadelphia National is at 4th and Chestnut, and the Fidelity is at 5th and Chestnut. The Pennsylvania Company is at 6th and Chestnut.

In spite of that competition in that neighborhood, we have actually built up in a period of about 14 months something like $2,700,000 worth of brand new business, and we have granted loans in that office, commercial loans, aggregating $2,757,000, with all these banks right around us and with the First Camden directly across the street.

We have granted in addition to that consumer credit loans [fol. 3784] aggregating $2,741,000. $2,178,000 we would have had if we hadn't the office, because it came through one of our customers, but the remainder of $600,000 was brand new business that walked in there without any ad-

ditional expense, because I used the people that handled the $2,178,000 at Broad and Thompson to handle the entire department down at 4th and Market.

We have in addition to that opened 91 Vacation Clubs at that location, 310 Christmas Clubs, and 49 Hanakah Clubs, representing the Jewish holidays which come in about the time of the Christian Christmas.

Q. That was a de novo branch, was it not?

A. I beg your pardon?

Q. That was a de novo branch?

A. Brand new. The building was built during the 20's and was occupied by a bank that failed, and had been standing all those years, and we bought it in 1960 and moved in there, opened it in April of 1960.

Q. Can you give me any other illustrations of competition in your branches?

A. Well, our office at Broad and Market is within a half square of the Girard, the side entrance of the Girard Trust. We are directly across the street from the Philadelphia [fol. 3785] Saving Fund, which is paying, as you know, 3½ per cent interest, and we are paying 1 per cent interest, and we have today between 16 and 17 million dollars worth of saving fund accounts on which we are paying 1 per cent interest, and here is the Philadelphia Saving Fund right directly across the street.

We opened a little bit of an office out at Academy Gardens in the extreme northeast. Because of delay on the builder's part, the Western Saving Fund opened three months ahead of us, with 3½ per cent, directly across the street from us. The Western Saving Fund, after struggling there for about a year, closed its office, and we are paying 1 per cent and they were paying 3½ per cent.

Q. Have you any other branches that you would like to refer to?

A. Well, we opened an office on May 8, 1961, down on South Broad Street, at Broad and Castle Avenue, and since May 8, up until the close of business on July 24, we had opened $1,519,000 worth of initial deposits, not one dollar of which came from our office down at 8th and Christian, which is in the general Italian neighborhood. I couldn't believe it were possible, but last week or the week before last I had that office audited to find out whether that quantity of money

[fol. 3786] was there or whether it really represented money that was put in to boost the boys that were starting the office, and I found to my surprise that there was practically the same amount of money on deposit two weeks ago as there was represented by this opening; and we have down there granted $164,000 worth of consumer credit loans, of which 24 were automobile loans, 87 were personal loans, two were equipment loans, and 39 were time sales.

We are within two squares, approximately, of the Central Penn, which is over $100 million bigger than we are, and we are within about four squares of the Liberty Real Estate, which is about $50 million smaller than we are. We have granted $108,000 worth of commercial loans, and we have opened 139 Vacation Clubs.

Q. Did you say the amount of your saving funds?

A. The amount of our saving funds was $92,398, and 90 per cent of the people that opened those saving fund accounts are Italians, who are supposed to be very rate conscious.

Now, I am not claiming that we haven't gone down in saving fund deposits, but it has, in my opinion, been profitable to stick at the 1 per cent, except in public funds, on which I had to meet the competition of the other banks.

[fol. 3787] Q. But you pay 1 per cent only in all your savings deposits?

A. Not all of them, no, because there are, for instance, school districts, and people like that where we have to meet the competition and pay 3 per cent. Our savings funds amount to almost $19 million, but between 16 and 17 million of it we only pay 1 per cent on it, because, in my opinion, it is cheaper to borrow Federal funds at a quarter of one per cent, as I had to sell them for yesterday—not borrow but sell them—than to pay 3 per cent on saving funds.

I may be wrong.

[fol. 3788] Q. But did you not include time money with savings in that total figure?

A. No. The $18 million is exclusive of time deposits, certificates of deposit.

Q. The $18 million is pure savings?

A. They do not—they generally are higher than the 1 per cent.

Q. Now, what has been your experience outside of Philadelphia? Have your branches outside of Philadelphia any competition?

A. We have got three offices in Delaware County. A little over a year ago the Philadelphia National Bank asked the Comptroller of the Currency, and very much over my objection the Comptroller granted them permission to open an office which was, I think 9/10 of a mile from one of our offices, 6/10 of a mile from another one of our offices, and a mile from a third one of our offices.

I started suit against the Comptroller and I don't know whether I should tell this or not, Your Honor, but our three heads of our offices down there came in and told me if the Philadelphia National Bank got that office we might just as well close the other offices, and I got mad and I said, using profanity, that I thought the competition was the best thing in the world and that therefore, if the Philadelphia Saving [fol. 3789] Fund came in there——

Q. Philadelphia National?

Mr. Littleton: Philadelphia National?

The Witness: The Philadelphia National—I mean, if they got in there we ought to get busy and do some work.

The result of it was that we had been lying there stagnant and much to my surprise our deposits increased in the last thirteen months by $479,000 net of the loss that I took on the saving-fund accounts, with the Philadelphia National right in the middle of our three banks.

By Mr. Price:

Q. That increase that you speak of took place after the opening of the Philadelphia National branch?

A. What I did was, I went in there—for instance, there had never been a drive-in window in any of the offices. I went in there and I put in drive-in windows, I put in parking area, I took one of the offices off of a little alley and put it on the same street that the Philadelphia National is on, right near the Pennsylvania Railroad station at Morton; and the result was that the growth was natural growth that came because we went after the business and because we had better facilities.

Philly has the same thing. They have got an enormous

[fol. 3790] parking area there and they have got a drive-in window; but, nevertheless, the actual figures were—I think it was $479,000 more in the thirteen months.

Q. That was in Delaware County?

A. Delaware County, yes, sir.

It was $471,000. I beg your pardon, I am a liar. It was $471,550.07 increase from May 5, 1960, to June 9, 1961, net of a loss of $390,000 in the saving fund due to the 1 per cent as compared to the 3 per cent.

Q. And all of that took place after the Philadelphia——

A. I beg your pardon?

Q. All of that took place after the Philadelphia National——

A. After they came in there, yes.

Q. What did you——

A. They went in there, I think, toward the close of last year.

Q. What has been your observation, let's say, in Delaware County, for example, of the effect of competition from a large Philadelphia bank on local banks?

A. It was rather amazing. In 1951 none of us were allowed to go into Delaware County. Between 1951 and today the Philadelphia banks have pretty well saturated Delaware County. We are scattered from one end of Philadelphia County to the other.

[fol. 3791] Q. Delaware County.

A. I beg your pardon?

Q. You said one end of Philadelphia County——

A. The Philadelphia banks are scattered from one end of Delaware County to the other; but in spite of that, Your Honor, the independent bank that is left down there, the Delaware County National Bank, has grown from $30 million in deposits to $71 million in the period of time in which all of these banks have moved in there, and what they did was exactly what I did.

Before we moved in there they were perfectly satisfied to sit there with an office. Then, when I took over the Interboro Bank they went to work and they opened a branch down there on MacDade Boulevard and, as a matter of convenience, people who dealt with us at the Interboro Bank began to deal with them; and the same thing happened in other parts of Delaware County.

They got on their toes because competition forced them to.

Q. Then what is your opinion based on your observation of the effect of competition in Delaware County?

A. Well, it certainly didn't hurt the Delaware County National Bank. It trebled their deposits or doubled them.

Q. Did the Delaware County National Bank have any [fol. 3792] mergers during that period.

A. None to my knowledge.

Q. Prior to this year you speak of, 1953, was it, the Philadelphia banks were not permitted——

A. I think it was the latter part of 1952 or the beginning of 1953 before any of us were allowed to cross the county line because the Secretary of Banking of Pennsylvania in the beginning was very much opposed to cross-county mergers.

Finally, around 1952 to 1953 we began to have the right to merge or open branches.

Q. What is your opinion as to the ability of the smaller banks in the surrounding counties adequately to serve their customers before they merged with some larger bank?

A. They weren't able to do it. You take one bank I remember particularly, that we took over. They had no consumer-credit department because, after all, a man who can run a consumer-credit department has to be paid a pretty good salary because he is an expert. They couldn't afford to pay, and, therefore, they didn't have that, which is one of the most lucrative parts of banking today in the United States—the consumer-credit loans.

There are various other departments that they couldn't do. You take a $10-million bank, it can no more keep an adequate, proper commercial-loan department than the [fol. 3793] devil himself could. They just can't do it and the proof was that when the poor banks that were $10 million were in existence they were buying 67-72's at 109 and we saw them go down to 79 because they couldn't make loans. They didn't know how to do it. They didn't have the moneys to do it.

You have got to have a credit department. We must have a dozen people at least just in our credit department alone.

Q. What would you say about the effect on the communities and the general public dealing with banks in the

surrounding counties of the effect of the mergers of the larger Philadelphia city banks?

A. It has been very helpful, in my opinion, to the communities. It certainly has been helpful to the stockholders of those banks because those stocks in those banks were practically non-salable. You just had to go out and find some friend who wanted to buy 10 shares of the stock, and then you were lucky. It had no market whatever, none whatsoever.

Q. Have you any comments you would care to make about the effect of competition in Montgomery County, similar to Delaware County?

A. Montgomery County has shown the same thing. The Montgomery Trust has grown tremendously. The little bank over there in Bridgeport, which is just across the river from [fol. 3794] Norristown, has shown something like a 40-percent increase in the period of time that we have all been moving into Montgomery County.

Q. There has been a large movement into Montgomery County, has there?

A. Oh, very.

Q. And what was the condition——

A. I have got the figures, if you want them.

Q. Yes. All right. Excuse me. I didn't mean to interrupt you.

A. The misfortune of having been a lawyer, Your Honor, is that he tends to argue.

Taking Delaware County, the Broad Street Trust Company has opened three offices, the Bryn Mawr Trust, which is a Montgomery County bank, has opened one. Fidelity has opened eight; the First Pennsylvania has opened seven and has gotten permission to open another one. The Girard Trust Corn Exchange has opened twelve or has twelve branches, due largely to the merger with the Upper Darby. The Liberty Real Estate has opened an office.

The Philadelphia National has got five offices; the Provident has got five offices. The Philadelphia Saving Fund has got three; the Western has got two; and the Beneficial [fol. 3795] Saving Fund has got one.

In spite of that there has been an increase in deposits of the Delaware County National Bank of 114.5 per cent.

Now, in Montgomery County there's a number of independent banks still out there. The Bridgeport National Bank which, as I said, is just across the river from Norristown, has increased its deposits from 1951 to 1960 by 37.8 per cent. The Bryn Mawr Trust has increased its deposits by 44.23 per cent. The Cheltenham National Bank has increased its deposits by 118.97 per cent; and the same thing was true of the Jenkintown Trust, which has recently been merged with the what-do-you-call-them here in Philadelphia, the Industrial.

In spite of that we find that—and the Montgomery County Trust has had mergers, so you can't count that so much, but the Peoples, to my knowledge, has had no mergers, and they have increased 103.46 per cent.

Now Broad Street Trust Company has one branch there. Central-Penn has one branch. Fidelity has four, First Pennsylvania has four, Girard has six, Industrial has one—of course, it is now a Montgomery County bank; Philadelphia National has seven, Provident has three.

The Philadelphia Saving Fund has four offices, the [fol. 3796] Germantown Saving Fund has three, the Western Saving Fund has one.

In spite of that the local banks have thriven, as I pointed out.

Q. Now turning back to Philadelphia, your bank, the Broad Street Trust Company, is a correspondent of the Girard, is it not?

A. Yes. That's our main depository.

Q. What could you say about competition between Broad Street Trust Company and Girard?

A. Well, I have never hesitated in taking anything that I could grab that was deposited in Girard, and I am quite sure that they have never hesitated to take anything they could from me.

Q. If this proposed merger between the Girard and the Philadelphia National Bank takes place would you consider that it would have any effect on interest rates?

A. Industry?

Q. Interest rates.

A. No. I don't pay the slightest attention to what the Girard is paying. The best example is the fact that I am paying on the overwhelming number of our accounts 1 per

cent in the saving-fund department and the Girard is paying 3, I guess.

[fol. 3797] It's of no interest to me whatsoever.

Q. Would you consider that it would have any effect on the interest rates generally in Philadelphia?

A. No, not a bit because the competition will be, if anything, keener than it was before.

Q. What effect, if any, do you think it would have on service charges?

A. Again, I don't think it would have the slightest effect. We make our own minds up as to what the service charges are that we are going to make.

We have to take into consideration what the other banks are charging, particularly in small communities, because we don't want to take a chance on the people moving out of our bank and going into theirs with a less service charge; but we only consider it. We are not bound by it in any manner, shape, or form.

Q. What effect do you think the proposed merger would have on the Philadelphia community in general?

A. I think it would have a most beneficial effect, and the reason that I am so vociferous is this:

Philadelphia has been awfully good to me and my family for almost two hundred years, and I hate to see Philadelphia second rate, and today we are in that position. We have got places like Cleveland, Boston, Pittsburgh with banks much [fol. 3798] bigger than ours. We have got two banks in Chicago, each of which is twice as big as the Pennsylvania Company; and San Francisco, with the biggest bank in the world, and with all the banks out there very prosperous.

Q. There are a number of small banks in California, are there?

A. Yes. Certainly, there are. There are, comparatively speaking.

Q. Do you consider that Philadelphia needs a larger bank?

A. I do.

Q. Why?

A. I think it's a crime to think that a man who wants to borrow $15 million has to go to New York or has to go to Chicago or has to go to Pittsburgh. I think it's a sin and a shame.

Q. Would you consider that the merged bank would have any power over depositors in other banks?

A. Not a bit. Not a bit. If I can accommodate them and if I treat them decently they are going to stay with us or come to us.

Q. Well,——

A. And, as I say, I would hazard a guess that 90 per cent of the businesses in this country could be accommodated in the way that I can accommodate them, namely, with the 10 per cent of $12 million and 25 per cent on collateral of an [fol. 3799] ascertained market value.

Q. Would you consider that the merged bank would have any power to affect adversely the customers of other banks?

A. No, in no way, shape, or form.

Q. Could they prevent prospective borrowers from having their borrowing needs adequately served by the other banks in Philadelphia?

A. They could not.

Q. Could they have any adverse effect on other banks so far as the other banks performing their banking services is concerned?

A. Of course, they couldn't. There would be no way in the world they could.

Q. Have you seen any evidence of any such interference with banking business or restraints as a result of mergers that have taken place in the past?

A. I certainly have not, because certainly I think Broad Street Trust is a very good example of what can be done in spite of all the growth of the other banks.

As a matter of fact, our earnings on our assets were the highest of any bank in New York or Philadelphia.

Q. Assuming that the merger took place, would you say that the existing or potential competition generally in com- [fol. 3800] mercial banking in the Philadelphia area would be substantially and unreasonably lessened?

A. Of course not. Of course not. You have got a $450-million bank in Provident, you have got about the same amount at the Fidelity. You have got us with $170 million—168 million the day before yesterday; and right straight down the line.

You have got banks that are as small as $2 million.

Q. Would you say that the existing and potential competition will be lessened at all if the merger takes place?

A. It wouldn't.

Competition would be increased because we would be out trying to take as much as we could away from them.

Q. What can you say about concentration in commercial banking in the Philadelphia area if the merger takes place? Would it, in your opinion, be substantially and unreasonably increased?

A. I think of large centers of industry in the United States it would still be the lowest concentration, very close to it.

Q. Would you consider the concentration that would exist [fol. 3801] to be beneficial or hurtful to the community?

A. I beg your pardon?

Q. Would you consider the concentration that would exist after the merger to be beneficial or hurtful to the community?

A. I think it would be helpful to the community, decidedly helpful.

As Dr. Harris pointed out, one of the arguments that was used by the Department of Commerce of Philadelphia was that we had adequate banking facilities to accommodate any business that would come in here; and we haven't adequate banking facilities at the present moment.

Q. When you say "we haven't adequate banking facilities," are you speaking now of the large borrower or the small borrower?

A. I am talking of a large national company that needs big credit, that has to go elsewhere and make Philadelphia second rate.

Q. What can you say about the existing and potential competition in the commerce and industry served by commercial banks in the Philadelphia area?

A. I think it would be helped, that there would be more businesses come in here, there would be more people willing to make this their headquarters.

[fol. 3802] Mr. Price: Cross-examine.

Mr. Reycraft: Do you have any questions, Mr. Littleton?

Mr. Littleton: No I have nothing.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Horan, does your bank own any stock in the Girard Trust Corn Exchange Bank?

A. I think we own about 1200 shares.

Q. Your annual report indicates 6600.

A. I own stock in two banks, the Provident; and I think I own more in the Provident than I do in the Girard, and that represents a fraction of 1 per cent of our total resources because——

Q. Would you agree with me, sir, that your bank now owns 6600 shares of Girard Trust Corn Exchange Bank; and I will show you your annual report?

A. Yes. That must be true when it is in there. I thought we owned more of Provident than we did of theirs, and we own 2486 shares of Central-Penn and 1,000 shares of Provident.

Then we have bought more Provident since then because I think our stock is now $512,000 instead of $500,000; so there is another $10,000 worth of stock, but it represents such an infinitesimal part of our resources, it certainly doesn't affect my judgment.

[fol. 3803] Q. You own stock in your own bank, sir, do you not?

A. In my bank?

Q. Yes.

A. Certainly.

Q. Do you own individually any stock in the Girard Bank?

A. Not a share, unfortunately. I have no money. If I had, why,——

Q. I assume that your answer would be the same if I asked you whether you had any direct or indirect interest?

A. I beg your pardon?

Q. Any direct or indirect interest also; you have none?

A. I didn't catch that.

Q. You have no indirect stock interest in the Girard?

A. Oh, no; none whatsoever.

Q. Your bank is a correspondent of the Girard, isn't it?

A. Yes; and it's also a correspondent of the Provident, it's a correspondent of the Central-Penn. It is a correspondent of Chase-Manhattan, and I guess there are a couple of others.

Q. What bank is your principal correspondent?

A. The principal depository—listen, to get this straight, the Girard is doing us no favors. We are doing the Girard favors because we keep $6 million to $7 million in there. We don't owe them a cent. They owe me [fol. 3804] $7 million, in all human probability, this morning.

Q. And they are your principal correspondent?

A. They are the principal depository.

Now, what do I have a correspondent for? I don't use them for anything—they collect some deposits for us, and that's all.

Q. Why do you have $6 million or $7 million on deposit with the Girard?

A. Because I have to do that to take care of my clearings. You see, I am not a member of Federal, thanks be to God; and therefore I am able to keep large deposits in banks, and I am the largest bank—I am certainly the largest in the State of Pennsylvania and probably one of the largest in the United States that is not a member of Federal, and it's going to take an Act of Congress to get me in there.

Q. Do you mean, just for the record, sir, that you are not a member of the Federal Reserve System?

A. I am not a member of Federal, and, therefore, all of our money is deposited in banks.

Now, I am sorry—yes, I think I have it. Well, I had $457,000 in the Provident at the close of business on Monday, the 24th; I had $124,000 in the First Pennsylvania, $378,000 in Chase-Manhattan. I had $562,000 in [fol. 3805] Central-Penn, and I had in the Irving Trust a deposit, in the Manufacturers' Trust a deposit.

In the Fidelity I had $99,000. The Chemical I didn't have anything there. Camden, Camden Trust, I had a deposit.

But our clearings go through Girard principally, but they also——

Q. Mr. Horan,——

A. But they also go through to some extent the Provident.

Q. Why aren't you a member of the Federal Reserve System?

A. I beg your pardon?

Q. Why aren't you a member of the Federal Reserve System?

A. Because I think it's a complete—well, don't tempt me. I don't want to get arrested. I don't want to get arrested.

I am afraid of defamation of character. You know, after all, that does, as you and I as lawyers know, constitute a crime.

Q. Mr. Horan, let me ask you whether, in your opinion, any of your existing customers would get any better service from the merged bank than they do from your bank.

A. Get any what?

Q. Any better service from the Philadelphia National-Girard Trust Corn Exchange Bank than they do at the present time from your bank.

[fol. 3806] A. Our customers?

Q. Yes, sir.

A. No.

Q. You think your bank is every bit as good?

A. I have never, to the best of my knowledge, participated in a loan with either Philadelphia National or the Girard. In the first place, I don't like participation loans because if there is going to be trouble I don't want the Girard to tell me how I shall get myself out of a mess that I got in. I want to be the sole guy that's got the loan.

Q. Sir, for any borrowers who need $1.2 million or less, can he get as good service from your bank as from the Girard or Philadelphia National?

A. He get what?

Q. As good service.

A. As he gets service?

Q. As good.

A. I can't understand what you are saying.

Q. Is your bank as good as these two banks for loans under that amount?

A. Are what?

The Court: Read the question to him, Mr. Lennox.

(The last question was repeated by the reporter.)

[fol. 3807] The Witness: I think we are.

By Mr. Reycraft:

Q. You are pretty sure you are, aren't you?

A. I beg your pardon?

Q. You are pretty sure you are.

A. That we are as good?

Q. Yes.

A. I think so. I think we have got, for instance, $27 million worth of loans in our Time Sales and we have got 1/100 of 1 per cent of the balances due on the notes that are 30 days overdue.

Q. Did you say that 90 percent of all the borrowers could be accommodated by your lending limit?

A. That's a pure, simple guess.

Q. That is based on your many years of experience?

A. From my experience, I would say that that is largely true, but there is another 10 per cent that can't get accommodated or 15 per cent, whatever it might be, in Philadelphia.

Now, of course, I have no facts to bear that out.

Q. And those are the only ones that you think might be benefitted by a merger?

[fol. 3808] A. All I can figure is, knowing how poor I am, I figure that the rest of the people must be poorer.

Q. And the latter group is the only group you think might be benefitted by the merger?

A. I beg your pardon?

Q. The latter group is the only group of borrowers that you think might be benefitted by the merger?

A. The big?

Q. Yes.

A. They would be benefitted.

Q. Yes.

A. And the community would be benefitted.

Q. Well,——

A. Yes.

Q. As far as borrowers are concerned?

A. Yes.

Q. The 10 per cent or so that you mentioned?

A. Whatever it may be.

Q. Yes.

A. And, of course, I am only guessing. I have nothing to base it on.

Q. I assume that for all of your testimony, sir, you are relying on your background and experience.

A. Yes, but that one particular thing is a pure, unadul- [fol. 3809] terated guess as to how many people in the country need $15 million. I have no earthly idea.

Q. Mr. Horan, has your bank ever had or have you or anybody representing your bank ever had any merger discussions with the Girard?

A. Ever had any what?

Q. Merger discussions.

A. Discussions?

Q. Yes.

A. No, definitely.

Q. Have there been any discussions looking toward a merger between your bank and any other bank in this city?

A. Yes, several.

Q. Several?

A. And I have turned them down without even taking them to the Board.

Q. Why did you turn them down?

A. Because there was nothing that our shareholders could gain. We are in earnings, I think—although the Girard may not agree with me—the second highest earner on a comparative basis in the City of Philadelphia for the first six months of this year.

Q. Did you think the community might benefit if you merged?

A. No, I don't think it's necessary.

[fol. 3810] Q. Wouldn't it give you a higher lending limit?

A. Yes, it would.

Q. And you don't think that would benefit the community?

A. I don't think that it's necessary for us to merge, because if this merger goes through then there is enough to take care of it between them and the Pennsylvania Company, of the fellows that need the big money.

Q. Do you think the Pennsylvania Company is now able to take care of the fellows that need the big money?

A. Is what?

Q. Is now able to take care of the fellows who need the big money?

A. To some extent, yes; more than I am.

Q. Do you have any knowledge of the number of borrowers who would need between $8 million and $15 million?

A. I haven't the slightest idea.

Q. So you don't know who would be benefitted by the merger?

A. No. I haven't the slightest idea. All I can do is guess from general experience.

Q. You think there must be a few, at least?

A. There must be some. Sure, there are. There is no doubt about that. I know that definitely.

Q. You don't have any particular ones in mind, though, do you?

[fol. 3811] A. No, because any of the guys that can borrow $15 million haven't come in to see me.

Q. Now, Mr. Horan, I believe you have also testified that you think Philadelphia should have a bank as big as Cleveland and Pittsburgh and Boston; is that right?

A. That's right.

Q. And if you think it is necessary to do it by merger it should be done?

A. I think—I certainly think it's the only way that it can be accomplished.

Q. It is the only way that a bank that big can be created; is that right?

A. It's the only practical way that it can be accomplished in my lifetime, anyway.

Q. And you think if it required several mergers it ought to be done?

A. We would have one bank, then, that would be $1,800,000,000, we would have another bank which would be $1,100,000,000 or $1,200,000,000, and we would have five banks ranging from $500 million, roughly, down to two million.

Q. After the merger, would Philadelphia have a bank as big as Pittsburgh?

A. It would be a trifle larger, I think, the last time I looked at Mellon's statement.

[fol. 3812] Q. A trifle larger than Pittsburgh?

A. I beg your pardon?

Q. I believe you would find it would be smaller still.

A. Would it?

Q. Yes, sir.

A. Well, that's all——

Q. I will be glad to show you an exhibit.

A. I looked at it a year ago and I didn't think they were up to $1,800,000,000.

Q. Here is Defendants' Exhibit No. 24, the Mellon National Bank & Trust Company has a lending limit of $25 million.

A. Yes.

Q. Do you agree with that?

A. Well, that's all the more shame that we should be held down under $15 million.

Q. And you think that even after the merger, if the combined bank has a lending limit of $15 million, it still ought to get as big as Mellon, do you?

A. No. I think that if we had this $15 million lending power it certainly, as far as I can see for the immediate future, plus what Pennsylvania can lend, plus what I can lend, plus what Provident can lend—that we have got a very healthy condition.

Q. You think, then——

[fol. 3813] A. Today we have a very unhealthy condition, in my opinion.

Q. You think that if the combined lending limits of the merged bank and the First Pennsylvania and your bank and a few others are considered Philadelphia would then have adequate capacity to take care of these large borrowers?

A. In my opinion, I think it would be adequate.

Q. You think it would be adequate?

A. Yes.

Q. You don't think that any further increase would be necessary after this merger?

A. All I can tell you is that Broad Street Trust Company is not going to go into mergers with anybody. Now, I can't answer for anybody else.

Q. Assume, as far as the community is concerned, however, do you think it would be beneficial to have a bank with a lending limit as high as the Mellon Bank?

A. It certainly doesn't sit very nicely on my stomach to think that Pittsburgh is $10 million ahead of us.

Q. You would like to have a bank as big as the Pittsburgh bank?

A. I certainly like to think that Philadelphia is not a second-rate city. It is no longer the green country town that William Penn visualized.

Q. And you think you ought to have a bank with as big a [fol. 3814] lending limit as Boston, Cleveland, and Pittsburgh; isn't that right?

A. There is no reason in God's world why it shouldn't.

Q. And if it is necessary to merge to accomplish this you think it would be beneficial?

A. There is no other way in the immediate lifetime of any of us that are sitting in this courtroom, in my opinion, that we can grow without a merger to that extent.

Q. And you think it ought to be done?

A. I certainly do.

Q. And you think it would be beneficial?

A. As a citizen of Philadelphia who has been very much interested in the welfare of the city all my life.

Q. And you think it would be beneficial to have a bank with a $25 million lending limit if it required merger?

A. As a matter of pride, yes.

Q. And as a matter of competition?

A. As a matter of competition, I don't know. I don't know whether it is necessary.

That would be for somebody else to decide, not me.

Q. You have no opinion on that?

A. No.

Q. Dr. W. Carlton Harris, who testified here, is a director [fol. 3815] of your bank, is he not?

A. Yes; yes, he is.

Q. And he holds other positions with your bank?

A. He is what?

Q. He holds other positions with your bank?

A. He's Chairman of the Auditing Committee and he's Chairman of the Salary Committee.

Q. And he also owns stock in the Broad Street Trust, doesn't he?

A. Yes.

Q. You don't know whether he owns stock in the Girard?

A. No; and I don't know how much stock he owns in Broad Street, to tell you the truth.

Q. Mr. Horan, when were you first asked to testify in this case?

A. I voluntarily wrote a letter to Mr. Gidney advocating the merger at the time that the matter was still in abeyance and then, subsequently, when the suit started, there was some discussion asking me to testify.

Q. What led you to write the letter to Mr. Gidney?

A. I wrote the letter to Mr. Gidney in January, 1961.

Q. Yes, sir. Why did you write that letter?

A. I did it for the very reason that I gave you—that I am very proud of Philadelphia and I want to see Philadelphia first-class, not a second-class city.

[fol. 3816] Q. Did you discuss your letter with any representative of the banks that you mentioned?

A. I did not. The first time that any of them saw it was when I sent a copy of it to Mr. Brown and a copy of it to Mr. Potts.

Q. Now, you said also that you filed suit some years ago against the Philadelphia National Bank?

A. That is correct.

Q. You also filed suit against the Comptroller, didn't you?

A. Yes.

Q. You filed a complaint in Washington, in the District of Columbia, didn't you?

A. That is correct.

Q. What relief did you ask for in that complaint?

A. I beg your pardon?

Q. What remedy did you ask for in that complaint?

A. I asked that the Comptroller be restrained from granting permission to the Philadelphia National Bank to open an office on Kedron Avenue which is, as I say, 6/10 of a mile from one of our offices, 9/10 of a mile from a second one, and 1 mile from a third one, on the grounds that there was no need for the office.

[fol. 3817] The Comptroller, in his wisdom, saw fit to

overrule me and then I brought suit against him, and then, as I say, the boys that ran the three offices came in crying the blues and telling me that I had to fight this thing to the bitter end.

Q. This was after you filed your suit?

A. After I filed the suit; and I got mad and I telephoned Wolf, Block, Schorr & Solis-Cohen, our local attorneys, and told them to notify the people in Washington, the lawyers in Washington, that we were calling the suit off.

Q. So you think now that you were wrong in filing that suit?

A. I think that they have done me no harm.

Q. Well, you think you made a mistake to file that suit?

A. No. I probably would have gotten a few dollars that I wouldn't have otherwise had, if I had won, if they had not been in there; but it didn't amount to anything because I did go up, as I say, $471,000 net in deposits.

Q. Now, after you wrote your letter to the Comptroller in relation to this particular merger you were asked by one of the defendant banks to testify here; is that right?

A. That is correct.

Q. Which one asked you to testify?

A. Girard was the one that asked me to testify.

[fol. 3818] Q. Were you asked to testify by one of the attorneys?

A. I beg your pardon?

Q. Were you asked to testify by one of the officers of the bank?

A. Yes.

Q. Who?

A. I was probably asked by Mr. Brown or Mr. Smith, and I want to correct one statement. I did read this letter to Mr. Smith, who is chairman of the Board of the Girard, before I sent it.

Q. Before you sent it?

A. Yes, but I wrote this letter voluntarily.

Q. Yes, I don't doubt that.

Before you wrote the letter, did Mr. Smith suggest it might be a good idea for you to write that letter?

A. Not to the best of my recollection. There was no conversation between us.

Q. You recall no conversation at all with Mr. Smith?

A. No, and I called him on the phone and I said, "I am writing this letter. What do you think of it?"

And he said he thought it was very good, and I sent it off.

Q. What was the Comptroller's reply to that letter? [fol. 3819] Did you receive a reply?

A. He merely acknowledged receipt.

Q. He didn't give you any indication——

A. Oh, no, of course not.

Q. —whether he would take action on it or not?

Did you discuss your testimony here, sir, with Mr. Carlton Harris?

A. As a matter of fact, I read Carlton Harris' testimony. I asked counsel, Mr. Price, if he would send me the testimony. I didn't know Carlton Harris was going away. As a matter of fact, the first time I discovered it was through the Girard Trust. I didn't know it myself.

Q. Who is running the Finance Committee while he is away?

A. I beg your pardon?

Q. Who is the chairman of the Finance Committee while he is away?

A. James D. Henderson, Jr., I think is chairman of the Finance Committee and vice-chairman of the Board.

Q. He is the gentleman who discussed the proposed merger with the Ambler bank some years ago?

A. I beg your pardon?

Q. Didn't he have some discussion with the Ambler Bank about a merger a couple of years ago?

[fol. 3820] A. Ambler Trust Company. I think it was several years ago.

Q. Your bank was interested in acquiring that bank?

A. Yes, we were anxious to buy it, and we had agreed on price and everything else, and the next thing that happened, the Girard Trust walked into the picture and they argued with them, and then the next thing we all woke up and found the Provident had gotten it.

Q. Is that the Ambler Trust, sir?

A. Was it? Or Ambler National?

Q. I thought you were talking about the Ambler National.

A. Ambler National. I think Girard got the Ambler Trust and Provident got the Ambler National.

Q. Girard got Ambler National, which I believe was the one your bank was talking to.

A. No. The one that I was talking to was the one that was gotten by the Provident.

Q. But Mr. Henderson, according to an exhibit which was introduced yesterday, talked to the Ambler National, and the Girard——

A. He merely mentioned to the Ambler National at the time we thought we had the Ambler Trust, or vice versa, I forget, that it would be very nice if both banks [fol. 3821] came with us, but we had no formal discussions of any kind or description.

Q. Well, be that as it may, your bank at that time was competing with the Girard and the Philadelphia National to acquire the Ambler National, weren't you?

A. At the beginning we were in the picture all by ourselves, and, as a matter of fact, an agreement was drawn up, which was approved by the president, vice-president, counsel, and a majority of their Board, and then the Girard got after them later, and then the Girard thought they had a deal, and then the Provident walked in and took the property.

Q. Now, with respect to the Ambler National——

A. I don't know which it is, whether it is the Ambler National or Ambler Trust. We had no formal negotiations of any kind or description with the one that was taken over by, whether Philadelphia National or Girard. The one that was taken over by Girard, we never had any formal negotiations with them at all.

Mr. Reycraft: I have no further questions.

Redirect examination.

By Mr. Price:

Q. Mr. Horan, you are here under subpoena, are you [fol. 3822] not?

A. That is correct.

Q. This letter that Mr. Reycraft was asking you about, did that express the opinion that you entertained at the time you wrote it?

A. It certainly did.

Q. About the merger?

A. It certainly did.

Q. And have you the same opinion today?

A. I certainly have, and the more experience I have had——

You have got to remember this, Mr. Price, that in point of service, in point of years, I am the oldest chief executive officer of any bank in Philadelphia, and as a practicing lawyer I lived through 1931 representing banks, and I know what it means to have small banks hanging around your neck.

Q. Will you read the letter that you wrote to Mr. Gidney, please.

A. Read it?

Q. Yes.

A. "My dear Mr. Gidney;

"Broad Street Trust Company is of the opinion [fol. 3823] that it is to the——

Q. Did you give the date of the letter?

A. The date of the letter is January 20, 1961, addressed to the Honorable Ray M. Gidney, Comptroller of the Currency, Treasury Department, Washington, D. C.

"My dear Mr. Gidney:

"Broad Street Trust Company is of the opinion that it is to the best interests of the City of Philadelphia that the proposed merger of Philadelphia National Bank and Girard Trust Corn Exchange Bank & Trust Company should be approved.

"Boston, Cleveland, Pittsburgh and San Francisco, all smaller than Philadelphia, have banks that are very much larger than our largest bank.

"In Chicago there are two banks, each of which are twice the size of First Pennsylvania Banking & Trust Company.

"Philadelphia is handicapped because very large borrowers have to go to New York or elsewhere to obtain loans.

"The proposed merger will not hurt other Philadelphia banks.

[fol. 3824] "In San Francisco is located the largest bank in the world and there are any number of banks there, of considerable size, all of which are doing a good job.

"From past experience I think it would be helpful to a bank with the resources of Broad Street Trust Company and to banks with less resources if the merger were approved.

"The merged bank would seek wholesale business and middle size business would gravitate toward banks of our size.

"I have seen this happen after other mergers were approved.

"Small corporations or individuals get overwhelmed by a huge bank and come to a bank like ours.

"That this statement is correct is shown by the fact that in December 1950 Broad Street Trust had Capital, Surplus and Undivided Profits of $3,000,000 and in December 1960 had Capital, Surplus and Undivided Profits of $12,500,000 and the deposits in the same period have grown from $54,473,000 to $144,786,000.

[fol. 3825] "If the merger is approved, there will be in Philadelphia thirteen corporations and two partnerships engaged in the banking business.

"Brown Brothers Harriman Company have resources as of June 1960 of $237,000,000.

"The Corporations engaged in banking as of the same date range in size from the Sonsitaly Bank & Trust Company and Citizens and Southern Bank, each of which has resources of approximately four and three quarter million dollars, to the First Pennsylvania Banking & Trust with resources of $1,149,000,000.

"In between these two extremes are Provident Tradesmens with resources in excess of $522,000,000 and Fidelity Philadelphia Trust Company with resources of over $472,000,000.

"We have also the branch of a New Jersey bank operating in Philadelphia that has resources in excess of $128,000,000.

"These banking institutions are highly competitive and the merger would not, in our opinion, create a monopoly or anything approaching the same.

[fol. 3826] "I am enclosing herewith a copy of Broad Street Trust Company's report to shareholders as of December 31, 1960.

"Yours sincerely,

"Chairman of the Board and Chief Executive Officer."

Recross-examination.

By Mr. Reycraft:

Q. Mr. Horan, did anyone assist you in preparing a draft of that letter?

A. I beg your pardon?

Q. Did you receive any assistance in preparing the draft?

A. No. Why would I need assistance? I happen to be a lawyer, and I want to tell you something: I don't think that Mr. Brown and Mr. Potts put together have got as much knowledge of the inner workings of their bank as I have of the inner workings of ours.

Q. The bigger a bank gets the more difficult that is?

A. I beg your pardon?

Q. I say, the bigger a bank gets, the more difficult that is?

A. Certainly it is. For instance, at Broad and Thompson, which is theoretically our main office, because that is where [fol. 3827] I got the operations, my office is right on the first floor, and everybody that walks in the door can see me, and all a guy has to do is walk past a palm in order to get—and it is a genuine palm, not a rubber one—to get in to see me.

Q. And you think this is beneficial to your customers if they have this access to you, don't you?

A. I said yesterday to the president of our bank that the day that one of our customers wouldn't do what happened yesterday, when one of our customers came in and he introduced a man to us and said, "This guy gets a terrible lot of business from me, and I told him unless he transferred all his business from"—I will tell you which bank—"to Broad Street Trust Company, he is going to get no more business from me."

Now, the reason the guy did that is he feels he can walk in and sit down and talk to me. He is as old as I am if not

older, and he calls me Pop. Now, I can't imagine that I would be so sacrilegious as to call Mr. Potts Pop.

Q. I would just like to nail one thing down, if I may, as far as this letter that you read is concerned. I understand that no one assisted you in drafting it, no one did any research for you in getting these figures?

[fol. 3828] A. I dug every bit of it out myself, and all I had to do was lift up that little book, you know, that has the banks of the United States in it, which is on my desk, and I picked it up and I worked it out.

Q. All right.

A. You can't imagine the advantage it is to be a lawyer——

(Laughter)

—and at the same time president of a bank.

(Laughter)

I qualified it. And at the same time president of a bank.

Q. Mr. Horan, did this sentence appear in that letter:

> "Smaller corporations or individuals get overwhelmed by a huge bank and come to a bank like ours"?

A. I think that the guy—I am not talking now about the guy that would borrow a million dollars; I am talking about the guy who would borrow $50,000—I think that he feels more at home. I think I used that expression.

The Court: We are 15 minutes past our recess time so [fol. 3829] we will take a ten-minute recess.

(A 10-minute recess was taken at 11:15 A.M.)

By Mr. Reycraft:

Q. Mr. Horan, during your testimony you referred to a letter of January 20, 1961, which I would like to have marked for identification.

May we have it marked as a defendant's exhibit?

Mr. Price: Yes.

(Letter dated January 20, 1961, from Hubert J. Horan, Jr., to Honorable Ray M. Gidney was marked Exhibit D-44 for identification.)

By Mr. Reycraft:

Q. Mr. Horan, in the letter of January 20, you made a statement, "Smaller corporations or individuals get overwhelmed by a huge bank and come to a bank like ours," didn't you?

A. Yes.

Q. And that is one of the reasons why you are in favor of this merger, is it?

A. It is one of the selfish reasons, yes, but when I referred to the individual as overwhelmed, understand, I am not [fol. 3830] talking about the man who can borrow the limit of our lending. I am talking about the man who wants to borrow 5, 10, 25 thousand dollars. He likes the idea of coming in and seeing the president and talking to him.

Q. You are talking about the borrowers within your lending limit; is that right?

A. I beg your pardon?

Q. The borrowers who are within your lending limit?

A. The guy that can borrow $1,200,000 would not be in that category of being overwhelmed by a big bank.

Q. What do you mean by a smaller corporation?

A. I mean a guy who could borrow, that we would be willing to lend up to 20 or 25 thousand dollars to. That guy is more familiar with me than he would be in a great big bank, in my humble opinion.

Q. And you said also, didn't you, in this letter, "The merged bank would seek 'wholesale' business and middle size business would gravitate toward banks of our size"?

A. Yes.

Q. What is middle sized business?

A. Middle sized business would be the man who wanted [fol. 3831] to borrow or the corporation who wanted to borrow 25 to 50 thousand dollars at the outside.

Q. And you think that these businesses would gravitate toward your bank because they would be——

A. Not necessarily toward our bank, but I mean they would gravitate toward smaller banks, I think, I hope.

Q. You said, "toward banks of our size."

A. Yes, I hope.

Q. And you think they would do that because they prefer

the personal service they could get from a bank of your size?

A. I think they would feel more at home, just as this man that I told you about who came in the day before yesterday.

Mr. Reycraft: That is all I have.

By Mr. Littleton:

Q. Mr. Horan, may I ask just a couple of questions: Mr. Reycraft interrogated you about Dr. Harris and his position as chairman of certain committees.

A. Yes.

Q. Those committees of which Dr. Harris is chairman are committees of the Board of Directors, are they not?

A. That is correct, yes, sir.

Q. He is not an employee of your bank, is he?

[fol. 3832] A. No.

Q. He is a director?

A. He is a director of the bank and chairman of those committees, and he gets paid for it.

Q. His director's fees and his committee fees?

A. No, he gets paid a direct salary, comparatively small. I think it is a couple of thousand dollars a year.

Q. Now, on another subject, in your opinion, does it benefit a large, growing industrial community to have banks of all sizes, from the largest to the smallest?

A. I think it does.

Q. Why?

A. Take the little corner grocer. He wants to borrow a thousand dollars on a demand loan. I am not talking about him going into the Budget Loan Department. I am talking about wanting to borrow a thousand dollars. It is going to be a great thing for him if he can walk into a middle sized or little bank, much smaller than ours, and borrow that thousand dollars. It is going to boost his ego. And I think that for the bigger man, the big bank is necessary, an absolute necessity.

Mr. Littleton: Thank you very much.

[fol. 3833] JOHN S. CARTER, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Mr. Carter, where do you live?

A. I live in Moorestown, New Jersey.

Q. What is your present position?

A. I am president of the First Camden National Bank and Trust Company.

Q. And the First Camden National Bank, of course, is located in Camden, New Jersey?

A. Its main office is, yes.

Q. And it is the bank that has a branch in Philadelphia that we have heard about in this case?

A. That is correct.

Q. Where is that branch located?

A. At 223 Market Street.

Q. Approximately how old is the First Camden National Bank and Trust Company?

A. We will celebrate our 150th anniversary next year. We were founded in 1812.

Q. How long has your bank had a branch in Philadelphia?

[fol. 3834] A. It has had an office in Philadelphia since 1813.

Q. It is rather unique for a bank in one state to have a branch in another state. Would you mind telling us just as a matter of interest for the record how it came about, briefly?

A. As I have been able to reconstruct it from the old minute books of the bank, a great many New Jersey farmers brought their produce to market in Philadelphia. As a service to customers the bank originally opened a box in the market area down in Market Street where customers could leave notes to be discounted. The cashier would row across the river and pick those notes up and then the Board would pass on them. Later that grew to a branch and has continued till the present time.

Q. You have been permitted to continue it as a branch right up until the present time?

A. Yes, sir.

Q. How long have you been connected in any way with the First Camden National Bank?

A. I have been a director about 13 years, I believe, and I have been an officer or president of the bank for about 3½ years.

Q. And prior to the time that you became president [fol. 3835] of the bank what was your principal occupation?

A. I was employed for 23 years by Radio Corporation of America, and at the time I left Radio Corporation of America I was vice-president for Finance Administration.

Q. And have you in those 23 years been principally in what you might call the Finance Department of the Radio Corporation?

A. Well, I am afraid, like Mr. Horan, I started out as a lawyer, and I have had various other assignments with the company, but for the last ten years, I would say, with R.C.A., I was in the finance end of the business.

Q. Did that mean you were the one who had contact with the commercial banks on behalf of R.C.A.?

A. Yes. My assignment was in Camden, which was the old Victor Talking Machine Company, which later became R.C.A. Manufacturing Company and later the Victor Division of Radio Corporation of America, which was the division that did the manufacturing of products, and as such we had our own bank accounts and our own contact with banks, our own accounting, budgeting, and so forth, and those were the things that came under my jurisdiction.

[fol. 3836] Q. And during that period you became a director of the First Camden Bank and you since have become president?

A. That is correct, sir.

Q. About what is the size of the First Camden National assets, deposits, and so forth?

A. As of June 30 we had total assets of about $145 million. Deposits were $129 million. Our total capital funds, including reserves, were about $13 million.

Q. And since 1955, we will say, have you enjoyed growth in assets?

A. I think we have had a very satisfactory growth, a growth that is comparable to other banks in the area. We have averaged about a six-per cent increase in deposits each

year since 1955. 1955 was a year of two mergers. We have had no mergers since then.

Q. This six percent average increase in growth each year since 1955 was since the time of the last merger?

A. That is right. I think our deposits have gone from $100 million to $129 million in that period without merger.

Q. I assume that you have considerable deposit and loan business in Camden, and I would assume that you [fol. 3837] would have it also in Philadelphia County with that branch. Will you tell us where else you draw your deposit and loan business from. What areas do you cover?

A. As far as actual branches in New Jersey, we are limited, with the exception of the Philadelphia branch, to branches within Camden County. However, we do have customers of the bank from as far away as the seashore, as far north as Bordentown, Levittown, in that area. We have customers in Chester.

Q. That is Chester, Pennsylvania?

A. Chester, Pennsylvania. Conshohocken, out on the main line, South Philadelphia. So we cover a fairly sizeable area, although our branches are confined to Camden County and the one in Philadelphia.

Q. Do you consider your bank to be competing in the Philadelphia metropolitan area in banking?

A. I hope we are.

Q. Well, you are, are you not?

A. Yes, sir.

Q. Confining yourself for the moment to Camden County, what is your competition with commercial banks in Camden County?

A. Well, naturally, our immediate competition over there [fol. 3838] is with the banks that are in the county. Our principal competitor is the Camden Trust Company. There are other banks in the county, however, and we compete with them primarily through our branches. However, Camden living as close as it does to Philadelphia, and being as industrial an area, is subjected to rather intensive competition from substantially all of the banks in Philadelphia and a great many of the banks in New York, and even Chicago banks and Pittsburgh banks get in there to call on our customers.

Q. Are you aware of solicitation by New York banks for business in Camden, for instance?

A. Oh, definitely. Of course, when I was with R.C.A. I was on the other side of the fence, and I was constantly solicited by banks from pretty much all over the country, with a company that size, but in talking with our customers I learn of the solicitation activities, not only of the Philadephia banks, but of New York banks and Pittsburgh and Chicago banks primarily.

Q. And have you learned the same thing in talking with representatives of New York banks, we will say?

A. Yes. Oftentimes they will also call on us when they are in the area, because they are anxious to improve their [fol. 3839] correspondent relationship as well as to improve their deposits from corporate customers.

Q. And have they indicated to you that they think the Philadelphia area, metropolitan area——

Mr. Reycraft: I object to that.

By Mr. Littleton:

Q. What have they indicated to you as the reason for their solicitation in this area?

Mr. Reycraft: I object to that.
The Court: Overruled.

A. I had a conversation in April with officers of one of the large New York banks. I was out to lunch in their dining room. During the course of the conversation we talked about this pending case. I had made the statement to them that I felt that this was a natural and a desirable merger. They told me that they felt that Philadelphia was, in effect, their happy hunting grounds for business outside the City of New York, and it was due primarily to the fact that there were not larger banks down here and that business had to gravitate to the larger money center in New York.

Q. Speaking of the size of banks, what is the proportion of banking assets in the Camden area, Camden County, [fol. 3840] that your bank enjoys?

A. If I may speak [illegible] deposits——.

Q. All right, speak [illegible]om deposits.

A. We have approximately 41 per cent of the deposits in the City of Camden. There are three banks in Camden.

The largest bank, Camden Trust, has about 55 per cent, so the remaining 4 per cent represents the deposits of the Third National Bank.

Q. Does this have any disadvantageous effect on competition in the Camden County area?

A. I may be a little biased in answering this, but I feel that people who know about banking in this area will agree that banking competition in Camden is about as rugged as it is any place.

Q. And this in spite of the fact that Camden Trust has 55 per cent of the deposits?

A. About 55 per cent.

Q. And you have what?

A. 41.

Q. You are speaking there of Camden City?

A. Camden City.

Q. Would you look at Exhibit D-18, page 7.

A. Yes, sir.

[fol. 3841] Q. You will notice that the title of this chart is "Percentage Growth of Deposits of Banks With Main Office in Camden County, New Jersey, Compared With Growth of PNB and Girard Between 1951 and 1960."

I direct your attention to the vertical line which indicates the growth of your bank, of Camden Trust Company, and of other banks in Camden County.

A. Yes, sir.

Q. Does this chart in general reflect the observations that you have made as to the growth of banks other than yours and Camden Trust within this period of time?

A. I would think it does.

Q. How do you account for this when Camden Trust enjoys 55 per cent of the deposits and you enjoy 41 per cent of the deposits?

A. I am sorry?

Q. How do you account for this intense growth or relatively larger growth by these other banks in Camden County when Camden Trust Company enjoys, as you say, 55 per cent of the deposits and your bank enjoys 41 per cent. How do you account for that?

A. Well, in the first place, I think that the growth of both Camden Trust and ourselves has been a good growth. [fol. 3842] The growth of the other banks has been better.

In one case Peoples National Bank went to a 3-per cent interest rate quite a while before the other banks did and got quite a bit of growth from that. Haddonfield National has been a very aggressively managed bank. They have been expanding in branches. They have been in a good area. That has grown, and they have just taken advantage of the opportunity to grow, and the fact that the two larger banks happen to have that amount of the deposits did not preclude them from growing.

Q. Do you draw any conclusion from these figures or this chart in your own experience as to what effect, if any, concentration of banking assets has on competition?

A. I would certainly have to conclude that 55 per cent of the deposits in one city is not bad when you can watch the growth of the competing banks.

Q. What services does your bank offer, without enumerating them all? If you can do it by excluding any that it does not offer, maybe that is the better way to do it.

A. I think we offer a full line of banking services, including a Trust Department, mortgage and construction lending, consumer credit, commercial lending, savings, and so [fol. 3843] forth.

Q. What do you consider your competition to be for the services?

A. Well, the competition primarily is with the banks in Camden. Secondarily, and a very close second, the banks in Philadelphia. New York banks. In special fields such as mortgages there have developed in South Jersey some very active mortgage brokers who do a fine job and render real competition to us. We have finance companies that operate in our area. We have savings and loans. We have a great many building and loans in Camden. We have credit unions.

Q. Are they all prospering?

A. I think so. Some of the building and loans are not growing too much, but they are prospering, I believe.

Q. And you are increasing your volume of such loans and such business at the same time, aren't you?

A. Very definitely.

Q. Now, you have heard described very graphically by Mr. Horan the situation in the area of Philadelphia in which your Philadelphia branch is located, and I presume

you confirm what he said as to the competing banks in that [fol. 3844] immediate area?

A. That is true.

Q. What is the percentage of growth that your branch in Philadelphia has enjoyed over the past several years?

A. Our branch in Philadelphia has had about the same record of growth in commercial accounts. The record of growth in savings has not been quite as great as the Camden office, but in commercial accounts it probably has slightly exceeded the growth of the main office.

Q. What is your lending limit, Mr. Carter?

A. At the present time $750,000.

Q. Is the full extent of your lending limit available to customers who come to the Philadelphia branch?

A. If they are credit worthy, yes, sir.

Q. Do you have correspondent banks?

A. Yes, we have.

Q. Tell us which they are and which cities and for what purposes.

A. Our major correspondent bank is the Philadelphia National Bank. We have lesser relationships with Girard, First Pennsylvania Company, Provident, and Mr. Horan's bank.

In New York we have our major relationship with [fol. 3845] Morgan Guaranty, and we have lesser relations with Chase, First National City, Chemical, Irving, and Bank of New York.

We also have a relationship in Chicago, Newark, and San Francisco.

Q. Is your bank a member of the Federal Reserve?

A. Yes, sir.

Q. Nevertheless you continue these correspondent accounts for other purposes?

A. That is correct.

Q. In your opinion, is the effectiveness of competition dependent on size of bank?

A. It is not, in my opinion.

Q. Will you expand on that?

A. Well, I think that we could go back to the same chart that we talked about and show how banks have grown, including some of the smaller banks. I think that our bank itself has experienced a rate of growth that is substantially

in excess of the average rate of growth of the banks in Philadelphia during the past ten years. I like to think, like Mr. Horan, that in having this growth we have been a high-earnings bank, and, as a matter of fact, if I can remember the figures correctly, the Federal Reserve published, their [fol. 3846] Research Department, published a report sometime after the first of the year, and in that it appeared that our bank earned during the previous year 1.1 per cent on its total assets, and all the banks in the Third Federal Reserve District having assets of $100 million or more earned .76.

I point this out, that a smaller bank operating under what I consider to be very intensive competition, not only on our own side of the river but this side of the river, can still experience a very substantial growth and realize satisfactory earnings from that growth.

Q. In your opinion, if this present merger of the Philadelphia and Girard is effected, will that have a detrimental effect on competition in the Philadelphia area?

A. In my opinion, it will not, sir.

Q. Will it have a beneficial effect?

A. I think that it can have a beneficial effect. In addition to the element of pride that Mr. Horan mentioned, I think that anything that has the effect of making additional capital available to our area will have a beneficial effect on the area and on the other banks if they are aggressive [fol. 3847] and alert to their opportunities, and the bank that has a substantially greater lending limit, as the merged bank would have, or the proposed bank would have, will, in effect, be able to do a better job of active solicitation of national corporate accounts, and because of the size of the limit I would expect those corporate accounts who allocate their borrowings to banks over the country to make a greater allocation here; and coupled with that, deposit balances should be greater, and that is where the additional money will come from to help develop our area, and we will welcome that because we think that we can do our part to get our share of the business.

[fol. 3848] Q. There is a subject that you touched on there. During your period and your experience in the Finance Department of RCA did you become familiar with the borrowing policies of RCA?

A. I have participated in negotiations for loans for RCA. During the war I participated in my first one when we had to arrange a $75-million V loan for war financing; and that was done through a group of probably 30 to 35 banks headed up by——

Q. Did RCA select the banks?

A. Yes, sir.

Q. In allocating proportions of that loan, what did they take into consideration with respect to the banks to whom they were allocating?

A. Well, in the first place, they tried to be fair with those banks who rendered them services at their various plant locations, and they asked those banks if they wanted to participate.

With the larger banks, they set an arbitrary amount which they allocated to those banks that wished it.

Q. Did the amount of the allocation bear any relation to the size of the bank that was included or to the lending limit of the banks which were included in the participating loan?

[fol. 3849] A. In some cases, that did. For instance, the First Camden National Bank has serviced the RCA Camden plant for many, many years. Although its lending limit was relatively small, RCA offered them the full amount of the lending limit. They offered them in excess of the full amount of their lending limit because, as a V loan guaranteed by the Government, the bank could lend more than its lending limit.

Q. How about the other banks?

A. Generally speaking, the New York banks that participated in it, and I believe, if I recall correctly, two of the Philadelphia banks that participated in that did not lend to the extent of their limit because it was not necessary.

The Court: I don't believe that you have answered the question that was asked there.

The Witness: I am sorry.

By the Court:

Q. In making these arbitrary allocations, did the company and did your committee—I suppose it was a committee?

A. Yes.

Q. Did your committee take into account the maximum loan limits of the particular banks?

A. They took that into account as one element, Your Honor, but they did not necessarily allocate to that bank the maximum that they could.

[fol. 3850] Q. I would rather assume that they wouldn't.

A. That's right.

Q. But they had to know the lending limit of the bank before they made their allocations; is that right?

A. That's correct.

By Mr. Littleton:

Q. Was the allocation generally proportioned to the lending limit?

A. Not necessarily. We probably had a half a dozen New York banks whose lending limits might vary some, but whose participation in the loan was approximately the same.

Q. How about other groups in other, smaller cities, smaller banks?

A. They were scaled down, of course. The New York banks had the largest amount of the loan.

Q. The smaller banks had a smaller participation?

A. I think the smallest participation in that was $1 million.

Q. Has Camden Trust Company, enjoying 55 per cent of the concentration of banking assets in Camden City, been able to set interest rates for Camden, for Camden borrowers?

A. No, sir. They have not been able to set interest rates for our customers.

Q. Have they been able to set them for any other than their own?

[fol. 3851] A. Not that I know of. I don't believe they could.

Q. In your experience is a thing of that kind possible no matter what the size of the concentration, that you have experienced, I mean in Camden?

A. No, sir.

Q. How about service charges? Have they been able to set the service charges charged by any other bank?

A. No, sir.

Q. Do you have service charges in your bank?

A. Oh, yes.

Q. What do you relate them to, Camden Trust service charges?

A. Well, we try to study the rates in the area, but we also try primarily to study our costs and to have the service charges bear a reasonably accurate relationship to our costs for rendering the service.

Q. In your opinion, will the merger of the Philadelphia National and the Girard Trust be a good thing for the whole Philadelphia metropolitan business community?

A. I believe it will.

Q. In your opinion, if that merger becomes effective, will the merged bank be able to prevent prospective depositors from making deposits in other banks?

A. In no way, in my opinion.

Q. Will it be able to prevent prospective borrowers from [fol. 3852] having their borrowing needs adequately supplied by the banks?

A. No.

Q. Will it be able to do the thing I asked you about Camden Trust—will it be able to fix the rates of interest in terms of loans, imposed by other banks?

A. No.

Q. Will it be able to prevent other banks in Philadelphia from performing banking services?

A. No.

Q. In your experience, is there any evidence of such restraints being practiced in Philadelphia or in the Philadelphia metropolitan area at the present time?

A. I have seen none.

Q. Has there been any difference in that since the merger of the First National Bank and the Pennsylvania Company in 1955?

A. No.

Q. As a matter of fact, that was the time of your last merger and you have grown since that time, have you not?

A. Quite satisfactorily.

Q. In your experience, has there been any evidence that any of the mergers heretofore accomplished in the Philadelphia metropolitan area created any such restraints as [fol. 3853] I have suggested?

A. To the best of my knowledge, no.

Q. Now addressing yourself to these particular questions, if the merger is effected and carried out, would it have the effect that existing and potential competition generally in commercial banking in the Philadelphia area will be substantially and unreasonably lessened?

A. No, sir.

Q. Will it have the effect that concentration in commercial banking in the Philadelphia area will be substantially and unreasonably increased?

A. No.

Q. Will it have the effect—and listen to this one carefully—that existing and potential competition in the commerce and industry served by commercial banks in the Philadelphia area will be substantially and unreasonably lessened?

A. No. That sounds like you are saying that if this merger takes place there will be less competition between Philco and RCA, if I understood the question; and that would be ridiculous, in my mind.

By the Court:

Q. Are you remembering the patent-pool case?

A. Then I will make it Wanamaker's and Strawbridge's, Your Honor.

[fol. 3854] By Mr. Price:

Q. Mr. Carter, Mr. Littleton asked you whether you thought the existing and potential competition might be substantially and unreasonably lessened by virtue of the merger.

I will ask you whether you think it would be lessened at all.

A. I do not think it would be.

Mr. Price: That is all, thank you.

Mr. Littleton: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Carter, what are the deposits of your Philadelphia branch at this time?

A. I would prefer not to answer that. That is information that I think some of our competitors would like, and we do not give out deposits by branches.

Q. I respectfully ask that you answer the question.

Mr. Littleton: I object to the question. I don't see what the relevancy of it is.

The Court: Read the question.

(The question was repeated by the reporter as follows:

"Q. Mr. Cater, what are the deposits of your Philadelphia branch at this time?")

[fol. 3855] The Court: I won't require him to answer it.

By Mr. Reycraft:

Q. What are your loans in your Philadelphia branch at this time, Mr. Carter?

Mr. Littleton: Objected to.

The Witness: I would prefer not to answer that.

Mr. Reycraft: I make the same request, Your Honor, that he be instructed to answer.

The Court: I won't require him to answer it.

Mr. Reycraft: I would like respectfully, then, Your Honor, to move that his testimony with respect to his competition in the Philadelphia area be stricken.

Mr. Littleton: Your Honor,——

The Court: Denied.

By Mr. Reycraft:

Q. What is the largest loan made by your Philadelphia branch, Mr. Carter?

Mr. Littleton: Objected to.

The Court: Overruled.

This is without name—no customer name.

The Witness: I believe at the present time the largest loan outstanding in that office is about $200,000.

[fol. 3856] By Mr. Reycraft:

Q. When was that made?

A. That loan was made this spring. I don't know the exact date.

Q. What is the location of the company to which it was made?

A. In our area served by our branch, within a few blocks. I don't know the street address.

Q. In Philadelphia County?

A. Yes.

Q. Do you know what percentage of your bank's business originates in Philadelphia County?

Mr. Littleton: Objected to.

Mr. Reycraft: On what grounds?

Mr. Littleton: I don't think it is relevant.

Mr. Reycraft: You have offered him as a witness to testify as to his competition in the Philadelphia area. If you are withdrawing his testimony for that purpose, all right.

Mr. Littleton: The Philadelphia area, according to his testimony, includes Camden County.

I have no objection to you asking something that comprises the over-all figures in his bank, but as to winnowing out the branches just for Philadelphia alone,——

[fol. 3857] Mr. Reycraft: I ask that he answer the question.

The Court: What was the question?

(The question was repeated by the reporter as follows:

"Q. Do you know what percentage of your bank's business originates in Philadelphia County?")

The Court: He can give an approximation. I will overrule the objection, if he can do it.

The Witness: I don't believe I can give you that when you limit it to Philadelphia County. We have customers of our Philadelphia branch in other counties, and I would

have to do quite a bit of figuring before I could answer your question with accuracy.

By Mr. Reycraft:

Q. You don't know at the present time?
A. No, sir.
Q. You don't even know approximately?
A. No.
Q. Do you know how much of your business comes from Bucks County?
A. I would say little, if any, at the present time.
Q. Do you know how much comes from Delaware County?
A. The same answer.
[fol. 3858] Q. And Montgomery County?
A. The same answer.
Q. And that same answer is "little, if any," in each case; is that right?
A. Yes.
Q. So that any business that your bank gets in the four-county area of any significance comes from Philadelphia County; is that right?
A. The largest amount comes from Philadelphia County. I would like, for my own information—I don't know what county Chester is in.

Mr. Littleton: Chester is in Delaware County.

The Witness: You asked me about Delaware. Then I would have to say that we do have business in Delaware County.

By Mr. Littleton:

Q. And that business comes from Chester?
A. Yes, sir.

By Mr. Reycraft:

Q. Do you know how much business comes from Chester?
A. Yes.
Q. How much?
A. I would prefer not to talk about it because that is one customer.
[fol. 3859] Q. One customer?

A. Yes, a substantial customer.

Q. You have only one customer in Chester?

A. Yes.

Mr. Reycraft: I would like to have you furnish the name of the customer afterwards, sir, if you will. You don't have to say it on the public record at this time.

By Mr. Reycraft:

Q. How much in deposits does your bank have with Philadelphia National Bank?

A. That varies from day to day. I would imagine it's in the area of $3 million and it can go higher and sometimes lower.

Q. I believe that the answer of the Philadelphia National Bank to one of our questions indicates that your deposits as of June 30th of this year or of last year, 1960, were $4 million. Is this correct?

A. That could very well be on a given day.

Q. Is that the largest deposit you have with correspondent banks?

A. It is.

Q. What services does the Philadelphia National Bank perform for your bank?

A. In the first place, they do our check clearing for us. [fol. 3860] They render very valuable consulting services from time to time when we see fit to ask them for their advice.

They have, on several occasions, taken participations from loans originating with our customer, where the amount the customer required was in excess of our lending limit.

Q. And these are the services which justify your maintaining a $4-million balance with them?

A. Yes.

Q. What is your lending limit?

A. $750,000.

Q. Now, you testified, by reference to R-18, about the growth of banks in Camden County; do you recall that?

A. Yes, sir.

Q. As far as Atco National Bank is concerned, that is one of your competitors in Camden County, isn't it?

A. Yes, sir.

Q. And its deposits, as indicated by D-18, on December 31, 1960, were $5 million. Does that sound correct to you?

A. I think that's correct.

Q. And the Audubon National Bank had deposits of $10 million; right?

A. Yes.

Q. The First National Bank of Collingswood about $8 million?

[fol. 3861] A. That's right.

Q. The Merchantville National Bank about $13 million; right?

A. Correct.

Q. Peoples National Bank of Laurel Springs, $11 million?

A. Yes.

Q. Third National Bank & Trust Company of Camden, $8 million?

A. Yes, sir.

Q. And these are your competitors who showed growth during this period of time you testified about; is that right?

A. Those, and Camden Trust Company.

Q. And these figures that I have indicated to you are the figures after that growth; is that correct?

Mr. Littleton: Will you look at page 8 in the back of D-18?

Mr. Reycraft should have instructed you that there are two groups in D-18. The first group is the charts and the second group is the figures; and this is page 8 of the second group.

The Witness: Yes. I have it now.

By Mr. Reycraft:

Q. Now, Camden Trust Company, during the time indicated by Exhibit D-18, grew by $56 million, didn't it?

A. Yes, sir.

Q. And that is 49 per cent?

[fol. 3862] A. That's right.

Q. Would you answer orally, sir?

A. I said that's right. I am sorry.

Q. And the First Camden National Bank & Trust Company grew by $45 million during this period; is that right?

A. Yes.

Q. And that is a growth of 57.7 per cent?

A. Yes.

Q. What percentage did you say that Camden Trust Company had of all the banking business in Camden County?

A. I did not. I said they had 55 per cent of the deposits in the City of Camden. I have not computed what their percentage is for the county.

Q. And the percentage of First Camden for the city?

A. I believe it's about 41 per cent.

By Mr. Littleton:

Q. Of deposits?

A. Of deposits.

By Mr. Reveraft:

Q. Of deposits, so the two banks between them had 96 per cent?

A. Yes, sir.

Q. Of all the deposits in the City of Camden?

A. That's right.

[fol. 3863] Q. And their growth during the period you testified about is over twice the growth of all the remaining banks combined; isn't that correct?

A. In absolute dollars, yes; not in percentage.

Q. In dollars; that's right.

But between them they had growth of over $100 million, whereas the remaining banks combined had growth of about $41 million or $42 million; is that right?

A. I have not added these figures. I will accept that.

Q. And in your opinion a bank which has 55 per cent of the deposits in the community does not have an undue concentration of banking assets; is that right?

A. In my opinion, it does not.

Q. And this would apply to Philadelphia as well as to Camden, sir?

A. Yes.

Q. How big a lending limit do you think a Philadelphia bank needs at this time?

A. I don't know. I think there should be banks or a bank

in Philadelphia with a substantially greater lending limit, but I can not put a——

Q. Substantially what?

A.—a precise figure on it.

Q. Substantially greater than what?

[fol. 3864] A. Than now exists.

Q. Which is what?

A. I think about $8 million.

Q. And how much greater do you think it ought to be?

A. I think it should be at least $15 million.

Q. I assumed you did.

How much greater than that?

A. $20 million wouldn't bother me at all.

Q. $25 million wouldn't trouble you, either, would it?

A. I don't believe so.

Q. And you think if it is necessary to have mergers to reach this limit that this will be beneficial to the community; is that right?

A. I think so.

Mr. Reycraft: May we ask the witness, Your Honor, if he will tell me off the record at this time the name of the customer?

I am not sure that I want to go into it, but I would like to know before he leaves the stand.

The Court: What do you mean by "go into it"?

Mr. Reycraft: Well, I mean that I won't disclose the name without asking Your Honor's permission.

Mr. Littleton: I would ask further for his protection that he will not see the customer or have any of his people [fol. 3865] see any representative of the customer without first giving us notice and an opportunity to object to Your Honor and to get a protective order, if we see fit.

Mr. Reycraft: I will give you that notice.

The Court: Hand Mr. Carter a piece of paper, have him write on it, and let me look at it first.

Hand this back to Mr. Carter.

You may come up, Mr. Reycraft, and look at it.

Mr. Littleton: May I also see it? I don't know who it is.

The Witness: I am doing this very reluctantly, Your Honor.

The Court: You are representing a bank; you are not. You look at it; you do not.

Mr. Littleton: All right.
The Court: I see no reason to go into it.
Mr. Reycraft: I don't intend to, Your Honor.
The Court: All right.
Now you can put that away.
The Witness: Thank you.
The Court: I think you have been well protected.
The Witness: Thank you, Your Honor.

[fol. 3866] By Mr. Reycraft:

Q. Were you asked, sir, to testify by the Philadelphia National Bank?
A. Yes, sir.
Q. Did one of their officers ask you to testify?
A. I had written to Mr. Potts after this case was started and expressed my deepest sympathy, and also offered to be of assistance, if I could.
Sometime after that he called me and asked me if I would testify and I said I would.
Q. That is after the complaint was filed?
A. Yes, sir.
Q. And it is a fact that Philadelphia National Bank is your biggest correspondent?
A. Yes.

Mr. Reycraft: I have nothing further.

Redirect examination.

By Mr. Littleton:

Q. Mr. Carter, will you turn again to D-18 and go to page 8 in the back under the December 31st, 1960, column, deposits of the various banks in Camden County?
A. Yes, sir.
Q. What are the deposits of Camden Trust Company?
A. $170 million.
[fol. 3867] Q. What are the total deposits for Camden County?
A. $374 million—$375 million.
Q. Can you roughly or accurately determine what percentage of deposits Camden Trust Company held of all of the deposits in Camden County on December 31st?

A. (No response.)

Q. My figure says it's roughly 45 per cent.

A. I would say 45 per cent.

Mr. Littleton: Will you mark this for identification, please?

(8-page memorandum dated April 10, 1961, was marked Defendants' Exhibit D-45 for identification.)

By Mr. Littleton:

Q. You told Mr. Reycraft when he asked you about who asked you to testify that you had written to Mr. Potts. I show you D-45 and ask you if this is the memorandum that you sent.

Will you tell us what that is?

A. Originally, I wrote a letter to Mr. Potts such as I described. After Mr. Potts talked to me about testifying, I sat down and prepared in memorandum form some of the thoughts that I had on the advisability of this merger and why I felt the merger was a sound thing, and sent them to Mr. Potts.

Q. But that is not the letter that you wrote to him?

[fol. 3868] A. This is dated April 10.

No, sir.

Mr. Reycraft: May I examine it?

Mr. Littleton: I don't know whether I am going to offer it or not.

Mr. Reycraft: I would like to examine it.

Recross-examination.

By Mr. Reycraft:

Q. Mr. Carter, is it your opinion that the vast majority of bank customers would be served just as well by a $10-million bank as well as by a $10-billion bank?

A. Numerically speaking, yes.

Q. And these are people who use the banks for their personal requirements—savings, personal-checking accounts, safe-deposit boxes, and occasional loans or mortgages?

A. Yes.

Q. And for customers of this type, convenience and quality of service are the controlling factors rather than the size of the bank?

A. I lost you.

Q. I say for customers of this type, convenience and quality of services are the controlling factors?

A. I believe so.

Q. Now, numerically is the number of large corporate [fol. 3869] customers who need access to large sums of money large or small?

A. Numerically, and compared with the total number of banks' customers, it is small.

Q. How is your ability to compete in Philadelphia affected by your ability to open new branches in Philadelphia?

A. I think it's adversely affected.

Q. You couldn't open another branch in Philadelphia under existing law, could you?

A. No.

Q. And you couldn't have the branch you now have under existing law, but for an exception to the general law; is that right?

A. I believe that's correct.

Q. Can you move that branch?

The Court: Do you mean up or down the street?

Mr. Reycraft: Anywhere, I think, Your Honor.

The Witness: We tried to move it when we built or rebuilt our building down here. We took an option on a piece of property at Sixth and Market.

The first report we got from the Fed was that we could not move it. We lost the deposit on our option. Immediately after that happened, however, they called me and said they might reconsider; but by that time we had decided to go [fol. 3870] ahead where we were.

Whether we could move it or not, I don't know. We couldn't move it very far, in my opinion.

By the Court:

Q. Whose permission would you need? The Comptroller of the Currency?

A. I think we would need the permission of the Fed

and I think we would need the permission of the Comptroller, also; but the Fed could always classify us as a central-city bank if they wanted to.

Mr. Reycraft: That is all I have.

Mr. Littleton: May I have that back?

Mr. Carter, I will not examine you on D-45, but now that Mr. Reycraft has examined you about it I will offer it finally. I will give this back to the reporter.

If Your Honor please, I only have the one copy, so if I may either have the reporter have copies made or withdraw it to make copies——

Mr. Reycraft: I will have objection to it going into evidence. I don't object to its being marked.

If the witness is here to express opinions and has testified, I don't believe this memorandum opinion has any value.

The Court: You say you are going to examine briefly [fol. 3871] on it?

Mr. Littleton: I think I have examined him generally on things that are contained in there.

The Court: Have you used it at all in your examination of him?

Mr. Reycraft: Some questions that I asked him, Your Honor, occurred to me on reading the document.

The Court: Let it be marked.

Mr. Reycraft: I have gotten the testimony from the witness himself, though.

The Court: Let it be marked as an exhibit for identification, the same as all the rest of them; and we will pass on it when the time comes if there is an offer.

Mr. Littleton: If I may ask the witness just one question now,——

By Mr. Littleton:

Q. Are the opinions which you expressed in Exhibit D-45 today the same as they were when you expressed them before?

A. They are.

By Mr. Reycraft:

Q. Did you prepare the exhibit entirely yourself?

A. I wrote the exhibit, I then submitted it to Mr. Bell, who is the executive vice-president of our bank, for comments. He made certain comments, some of which I incor-
[fol. 3872] porated and rewrote the exhibit and mailed it to Mr. Potts.

Q. Did you discuss the question with any of the representatives of the banks before you completed your opinion?

A. No, sir.

Mr. Littleton: What banks?

Mr. Reycraft: The two defendant banks.

The Witness: No, sir.

By Mr. Reycraft:

Q. I notice the memorandum is mimeographed. What was the purpose of that?

A. That must have been done by the bank. I sent an original typewritten memorandum to Mr. Potts with my letter. Where this came from, I don't know.

Q. Mr. Carter, because of the physical and legal limitations that you have testified about as to your ability to compete in Philadelphia, does your bank work closely with the Philadelphia National Bank in promoting business in the Philadelphia area?

A. We work by ourselves in promoting business in our area.

Q. In Philadelphia?

A. And we compete with Philadelphia National Bank in that area and call on their customers.

Q. In Philadelphia County?

A. Yes.

[fol. 3873] Q. So your answer to my question is "no"?

A. That's right.

Q. You have already testified, I believe, that you participate, that you give over-line participations to the Philadelphia National Bank?

A. We have done that. We have done it with other banks.

Mr. Reycraft: That is all.

Mr. Littleton: That's all.

Mr. Price?

Mr. Price: No.

The Court: It is within two minutes of 12:30. We will recess until 2 o'clock.

(Recessed for luncheon at 12:28 o'clock P.M.)

[fol. 3874] [File endorsement omitted]

AFTERNOON SESSION

S. HARRY GALFAND, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Mr. Galfand, where do you live?

A. I live at 502 West Allens Lane, Philadelphia.

Q. You are a member of the Bar?

A. I am a member of the Bar of Philadelphia County.

Q. Do you occupy any position with the Citizens & Southern Bank?

A. I am the Chairman of the Board of Directors of that bank.

Q. And are active in its management?

A. Yes, sir.

Q. How long have you been Chairman of the Board of Directors?

A. Since about the middle of 1956.

Q. Was that your first connection in that bank?

A. Yes, sir.

Q. Before that did you do any work of a financial nature?

A. Yes, sir, not with banks, but in finance companies, a [fol. 3875] small loan company, an acceptance company.

Q. For how long a period of time?

A. For a period of approximately four years prior to that.

Q. And you came into the position with the Citizens & Southern Bank as a result of what?

A. As a result of others and I buying a major interest in the bank.

Q. Where is the bank's principal office?

A. Its principal office is at 19th and South Streets in Philadelphia.

Q. Has it any branch in Philadelphia?

A. It has a branch at 20th and Chestnut Streets.

Q. At the time you became Chairman of the Board of this bank what was the approximate size of the bank?

A. In terms of assets or deposits?

Q. Both.

A. In terms of deposits it was approximately $2½ million.

Q. That was in 1956?

A. Yes. As a matter of fact, at the end of 1956 we had $2,600,000 in deposits.

Q. What are your deposits today?

A. As of June 30 of this year they were $5,200,000.

Q. What is your lending limit?

A. $34,000, sir.

[fol. 3476] Q. Has your lending limit been the same during all the period you have been connected with the bank?

A. No, it has increased over that period of years. When we first came in there it was $25,000.

Q. What are the principal activities of the Citizens & Southern Bank? What services do you offer?

A. It accepts deposits in the form of checking accounts, both regular and special. It accepts time deposits and offers certificates of deposit. It has some safe deposit box facilities at its South Street office. It makes loans to consumers for the purchase of consumer products such as automobiles and appliances. It finances the improvement of properties. It makes signature loans. It lends to small retailers and some small manufacturers and distributors and also makes collateralized loans based on stock exchange securities.

Q. The consumer loans represent what proportion approximately of your business?

A. Approximately 60 per cent of our total loan portfolio.

Q. Do you do small business financing through the consumer loans?

A. We do some of it through consumer loans and some of it through term loans. By term loans I mean both demand and 30, 60, and 90-day loans.

[fol. 3877] Q. Your largest loan is approximately what now?

A. About $32,000.

Q. Do you enjoy a good rate of return of interest on the loans that you make?

A. I would say that there are very few loans that we get less than 6 per cent simple interest on and that on our consumer business and loans up to $3500 that are on an installment basis we have what would be called a 6 per cent add-on rate.

Q. And during this period from 1956 to 1961, when you enjoyed 100 per cent increase in deposits, did loans increase proportionately?

A. Yes, sir.

Q. With whom are you in competition for these various services in Philadelphia?

A. Well, I would say that we are in competition with every bank in the City. Our 20th Street office, our 20th and Chestnut Street office, is located only three blocks from the Provident Tradesmens branch at 17th and Chestnut and approximately three blocks from a Fidelity-Philadelphia office at 1810 Walnut, and, in any event, we are only six blocks away from the concentration of all of the major central city banks at Broad and Walnut, Broad and Chestnut. Our South Street office, again, does a city-wide [fol. 3878] business, both in terms of deposits and in terms of loans and has immediate competition from the Fidelity-Philadelphia Trust Company at 24th and Manning Streets.

Q. In addition to the competition with other commercial banks of Philadelphia, what other kinds of competition do you encounter?

A. Well, we have to compete with the mutual savings banks, who pay a larger rate of interest on time deposits than we or any other commercial bank is permitted to pay. We have to compete with the savings and loan associations and building and loans who are offering 4 per cent and 4½ per cent on savings. We also compete with savings and

loans from a loan viewpoint, because they also make home improvement loans, and we are directly in competition with them. We are competing all the time for the savings dollar with such organizations as Teachers Service Organization, who advertise on a Pennsylvania only kind of investment, and all savings institutions. We compete with the small loan companies who are offering loan facilities to the small borrower. We compete with financial companies who buy, as we do in some cases, paper from dealers, which is generated through sales of automobiles or other consumer products.

Q. This competition that you get from commercial banks and from other financial institutions other than commercial [fol. 3879] banks, has this increased over the period of years that you have been connected with this bank?

A. In my opinion, it has become more intensive.

Q. In what year did you open the branch or determine to open the branch at 20th and Chestnut Streets?

A. We opened the branch in July of 1958. I would say that we began to think about opening it in late 1957.

Q. And what moved you to think that you could compete at 20th and Chestnut Streets with the other large banks that you have mentioned?

A. Well, we felt that we could offer convenience to people who were living in that area, that bank customers, we theorized, were people who like to bank at a place that is close by, frequently, and there was an area here that was being developed with apartment houses, a residential area. We selected, as the building in which we would locate, a building that had many tenants in the professional field, particularly the medical professional field. We also surveyed the area to see what small businesses might be close by. We also surveyed the competition and felt that we would not have too much difficulty in reaching a million to a million and a half dollars in new deposit money. Our principal aim was to get deposits there.

Q. And have you realized your aim and are you realizing [fol. 3880] your aim?

A. Yes, we are. We have a constantly advancing situation. We have presently about a million and a quarter in deposits brought entirely from that branch, not including any transfers of accounts from our existing facility.

Q. During the period that you have been with the bank have there been any substantial mergers of large institutions in the Philadelphia area, large commercial banking institutions?

A. In 1957 Provident and Tradesmens merged.

Q. One of their branches, you say, is quite near this branch you opened at 20th and Chestnut?

A. They are three blocks away.

Q. Did that merger in any way decrease your ability to increase your business?

A. No. We opened up right in back of their merger, three blocks away, and were nevertheless able to compete what we regard as effectively.

Q. What means did you use to develop deposits at this new Chestnut Street branch?

A. Well, when we opened the branch we had an opening ceremony with visiting dignitaries that we thought might attract some newspaper interest. We had a direct mail advertising program which went to some 5000 residents and businessmen in the immediate area. We tried some [fol. 3881] city-wide advertising in the form of broadcasts over Station WFLN. We also had some broadcasts over another station, but I don't recall just now which one it was. We started to advertise, when it came into existence, in a center-city newspaper, a newspaper for center-city residents, and we had a few give-away items. We gave away key chains and invited people into the bank to get them.

Q. Are you a member of the Federal Reserve?

A. No, sir.

Q. How do you handle your clearings?

A. Our clearings are handled through our correspondent.

Q. And who is your correspondent?

A. Our correspondent is First Pennsylvania Company.

Q. And you keep a deposit with the First Pennsylvania Company?

A. Yes sir.

Q. Does the deposit cover your clearings or does it cover other services besides that?

A. Oh, it is more than would cover our clearings. I don't regard it as being there to cover anything else. It is just the amount that we keep on hand. We do get other services from them.

Q. Do you keep deposits in any other Philadelphia banks?

A. Yes.

Q. Will you name them?

[fol. 3882] A. We have a deposit in the Philadelphia National Bank and we have a deposit in the Industrial Trust Company.

Q. Do you have any in New York?

A. Yes, we have a deposit at the Schroder Bank and Trust Company in New York.

Q. What is your purpose in having a deposit in New York?

A. Well, the purpose of our having a deposit in New York is to have facilities for such New York business as we get. We had a customer who had a fair number of New York clearings, and we wanted Schroder to take care of those for us. Schroder have also arranged some participations for us.

Q. You are aware of the fact that the Philadelphia National and Girard Trust are endeavoring to merge?

A. Yes, sir.

Q. Do you apprehend any disadvantageous result to your bank if that merger is effected?

A. Mr. Littleton, I can answer it by saying no and telling you that we don't see any greater effect than the Provident Tradesmens merger would have on us, and that had none.

Q. That had what?

A. That had none, no disadvantageous effect.

Q. Did you find any good effect from that?

A. Well, I guess every small bank finds, as we do, the effect that whenever there is a merger, somebody gets moved away from some particular office where some cus-

[fol. 3883] tomer has been particularly pleased to deal with him, and as a result we frequently end up getting a customer.

Q. And from your experience you could reasonably expect something of the kind if this merger becomes effective?

A. I could expect that, and I think that to the extent also that the merger might create a more satisfactory banking climate for the big business community, and to the extent that when big business is here in Philadelphia and when it prospers here, it means that they have more employees, there are more local suppliers, there are sometimes more local retail distributors, so that we begin to talk about peo-

ple of our size in our bank, and to the extent that that payroll is bigger in number and amount, we have more depositors generally.

Q. In your opinion, would this merger, if effected, have any disadvantageous effect upon the small businessman, the small business borrower?

A. Mr. Littleton, as long as we are still around, and as long as we are able to continue our rate of growth for what I regard as the small businessman, I would say no advantageous effect.

Q. And you think that besides yourself there are other alternative sources, such banks as yours?

A. Yes, I think there are other banks, for example, that [fol. 3884] while they are considerably larger than we are, are still interested in this type of business and happy to have it. There are other financial institutions.

Q. And if this merger should result in 35 per cent of the banking assets in Philadelphia being in the hands of one bank, as it has been stated here or alleged several times, would that, in your opinion, give such merged bank any power over determining the interest which your bank, for instance, would charge to a small business borrower?

A. We have a legal limit, and our bank tries to get the legal limit on all of its business, and I can't see that it would have any effect on us.

Q. Would it have any effect on the small businessman's ability to get loans from your bank or a bank similar to yours?

A. If he is a creditworthy risk, we would be delighted to lend to him, and I am sure there are many others who would as well.

Q. Is there any way in which this bank, after the merger, and with the concentration of 35 per cent of the banking assets suggested, could in any way disadvantageously affect your bank?

A. In the absence of some sweeping economically suicidal reduction of rates to an impossible place, I don't see any way it could hurt us.

[fol. 3885] Q. Is there any way in which they could disadvantageously affect the small business borrower?

A. I think that as long as there are some of the rest of

us around who are happy to have the business, I don't see how it will have any advantageous effect on them.

Q. If they, for instance, changed their policy towards small business borrowings to what you might call a tough policy rather than a cooperative policy, what would be the effect so far as those small business borrowers?

A. I would think they would come to us or they would come to Industrial or they would come to the Second National or Frankford Trust and be welcomed with open arms.

Mr. Littleton: Do you have any questions, Mr. Price?

Mr. Price: No questions.

Mr. Littleton: Cross-examine.

Cross-examination.

By Mr. O'Donnell:

Q. Mr. Galfand, have your savings deposits increased in recent years?

A. Our savings deposits have increased very slightly.

Q. What rate of interest do you pay?

A. We pay 1 per cent, sir.

Q. What are your total loans, Mr. Galfand?

[fol. 3886] A. Total loans at the present time are about $2½ million.

Q. These are primarily consumer loans you said?

A. About 60 per cent.

Q. How much are commercial and industrial loans?

A. I would say perhaps about 20 per cent.

Q. 20 per cent?

A. About 20 per cent.

Q. About a half million dollars or so?

A. That is right.

Q. And these are loans under $34,000?

A. Yes, sir.

Q. Do you expect to get more of this business as a result of the merger of Philadelphia National and Girard Trust?

A. I don't know that I have really formed an opinion as to whether we will get more of that type of business. We wouldn't be as interested in that type of business as we would in the consumer business, but if it comes and the

deposits come with it, which is generally the case, we will be happy to make some more of those.

Q. You cannot increase your loans without receiving more deposits can you?

A. We can increase the amount of loans without increasing our capital and surplus—the dollar amount of the loan. We can't increase the total amount of our loans without [fol. 3887] increasing our deposits. That is partly true. We can shift from our investment portfolio, from our bond portfolios into some loans. We have fluidity there.

Q. Do you intend to do that?

A. We would be prepared to do that. We feel that we haven't completely lent beyond reasonable limits our deposited funds.

Q. You have no present intention of doing it?

A. Only to say that I don't have a present intention not to. I haven't thought about it.

[fol. 3888] Q. You said that four years ago some other people and yourself took over the management of the Citizens & Southern?

A. That was approximately six years ago.

Q. Six years ago?

A. Yes.

Q. How long had the bank been in business prior to that time?

A. Since 1921.

Q. 1921?

A. Yes, sir.

Q. Did the prior management retire?

A. Not completely, no. Some of prior management are still on our Board of Directors and three of the officers are still officers.

Q. Would you and your associates hold a controlling interest?

A. Yes, we hold a controlling interest, not on the Board of Directors, but in terms of stockholdership.

Q. Did you bring in your own president, perhaps?

A. Yes, we brought in our own executive vice-president, with the former president remaining for a while; and then thereafter our man became president and I became chairman of the Board of Directors.

Mr. O'Donnell: No further questions.
[fol. 3889] Mr. Littleton: Any questions?
Mr. Price: No.

By Mr. Littleton:

Q. Just one question, Mr. Galfand.
A. Yes, sir. I am sorry.
Q. You are here under subpoena, are you not?
A. Yes, I am.

Mr. Littleton: Thank you very much.
Mr. Littleton: Mr. Jennings.

Lewellyn A. Jennings, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Littleton:

Q. Mr. Jennings, where do you live?
A. Dallas, Texas.
Q. How long have you lived in Dallas, Texas?
A. Since May 15, 1960.
Q. At that time you became what officer——
A. I became a senior vice-president in the Republic National Bank of Dallas.
Q. Since your graduation from school, Mr. Jennings, what has been your business experience?
[fol. 3890] A. I worked for approximately five years in the Silver Creek National Bank, which is west of Buffalo on Lake Erie.
Early in 1929 I became assistant national bank examiner with headquarters in New York City, the Second Federal Reserve District. For the next six years——
Q. May I ask you right there what comprises the Second Federal Reserve District?
A. All of New York State, the western part of Connecticut, and the northern section of New Jersey.
Q. Go ahead.

A. For the next six years, until 1935, I was employed as an assistant national bank examiner, working throughout the Second Federal Reserve District in all of the three states I mentioned, but concentrated rather heavily in the western part of New York State and in New York City.

In 1935, in March, I was commissioned a national bank examiner and functioned as a national bank examiner in the Second District until 1941. For a little over two years of that period I was engaged in the examination of the foreign branches of national banks located in South American, the Caribbean, and in Europe.

In 1941 I was called to Washington, July, 1941, as an assistant chief national bank examiner.

[fol. 3891] Q. Mr. Jennings, before you tell us about being called to Washington, would you tell us briefly, what does a national bank examiner do?

A. Well, a national bank examiner examines national banks for the Comptroller of the Currency. I could make you a rather lengthy answer as to what the examiner does, but just in a few words he is not an auditor or accountant as such.

A national bank examiner does a certain amount of auditing but his basic job is to appraise the soundness, the collectability of the bank's assets, and particularly its loans. He appraises, of course, the investment securities from the standpoint of credit quality, soundness, marketability. He goes into all other activities that have to be appraised.

He also goes into the management competency, the management policy, things that might indicate that the management is doing a very excellent job or it may be following policies that would seem to be destined for ultimate heavy losses on the part of the bank.

Really, his most important job is the appraisal of the assets, the appraisal of the policies of the bank, the appraisal of management, whether or not its cash dividends are in line with the earnings and the capital adequacy of the institution.

[fol. 3892] He covers in a very broad way those things that would have to do with the success or the failure of the bank in the months and years ahead.

Q. And if he discovers anything which he considers note-

worthy for one reason or another, what does he do then? Does he have any authority, or is it a reporting matter?

A. No, the examiner has a good deal of authority. A national bank examiner is requested and expected, during an examination where he finds things that are, let's say, past being moderately wrong but are rather seriously wrong, to cover all of those things, not only with the executive management of the bank, but with the directors of the bank.

Now, in smaller banks he would call a full Board meeting. In larger banks, in all probability, he might call together the Executive Committee rather than to have 25 directors at the meeting; but he is expected to cover those matters with the management, the directorate, the executive management, and outline in his report what the top management thinks about the things that he has set forth in his report as being weak or of a nature that might lead to losses, unwarranted losses.

So, he has a great deal of authority, and I might add that the losses that an examiner sets up in his report must be charged off unless the Comptroller of the Currency [fol. 3893] himself waives it. In other words, a group of bankers may not go to the Chief Examiner of the District and say, "We don't believe this $100,000 should be charged off."

As a matter of practice, they would work through the Chief Examiner, but the Comptroller himself would have to sanction not taking the necessary action to remove the losses as classified by the examiner. He has a great deal of authority.

Q. Now, you say in 1941 you became assistant chief national bank examiner in Washington. How long were you in that position?

A. I was in that position from July of 1941 until September of 1950, with three and a half years out for Army duty.

Q. Now will you tell us briefly what the duties and authority of the assistant chief national bank examiner are?

A. An assistant chief national bank examiner in the office of the Comptroller of the Currency occupies a very important post. There are usually six, sometimes seven. The assistant chief is assigned one or more Federal Reserve Districts. He is responsible for most of the contacts between Washington and the district chief national bank examiner

or examiners with respect to the examination work that is performed in a specific Federal Reserve District or Districts.

[fol. 3894] The examination reports, when they have been prepared, have been completed at the district level, are forwarded to Washington. The assistant chief reviews each examination report thoroughly. He is authorized, if he sees fit, to simply pass the report to the file after certain necessary records are made, without comment.

He has the responsibility of determining whether anything is sufficiently wrong to warrant action on the part of the Comptroller—a letter to the Board of Directors requesting correction. If so, he prepares it, but he does not sign it. He works under a Deputy Comptroller, who might have four Federal Reserve Districts under his supervision; but the Deputy Comptroller of the Currency having supervision of four districts has to depend on the ability of that assistant chief to make accurate analysis of the reports as they come before him and he must be in a position where he can write a letter that at least seven times out of ten is going to be an acceptable letter that would go out.

Every now and then, of course, the Deputy Comptroller will not agree with the approach of the assistant chief examiner, but usually the letters are agreed with and they do go out.

He follows up on the replies from the bankers in connec-
[fol. 3895] tion with such letters, and if degations come to Washington, as they sometimes do, the assistant chief invariably works with the Deputy Comptroller in connection with such delegation.

Q. Now, when you went to Washington as assistant chief national bank examiner in 1941, to which Federal Reserve District were you assigned?

A. I was assigned to the Third Federal Reserve District: (1) I was a newcomer to Washington in that position; (2) I think that there were more problem cases in number in the Third District at that time than in most of the other districts. There had been a greater problem in real estate throughout the district in the coal areas and there were a number of banks that the RFC and the FDIC were quite interested in; so it really was a full-time job.

I had that job of looking after the Third Federal Reserve

District matters until I went in the Army and then when I returned from the Army I had the Third Federal Reserve District under my wing until January of 1949.

Q. Did that imply that you made trips to Philadelphia and other places within the Third Federal Reserve District?

A. Yes. I made frequent trips to Philadelphia, met with the chief national bank examiner and the examiners and [fol. 3896] assistant examiners here, holding conferences, going over problem matters, keeping abreast of everything that was happening in the Third District.

Q. Did you become acquainted during that period and that experience with most of the banks in Philadelphia, national banks?

A. I did not during that particular period. I met some, but I cannot say that I met most of them in Philadelphia.

No, I would have to say "no"; I met some but not most of them.

Q. Thank you.

By the way, did you do anything having to do with banking or finance as part of your war service, briefly?

A. Yes, I did. I was at Eisenhower's headquarters a good deal of the time, first as financial intelligence——

Q. In what position?

A. Pardon?

Q. In what position?

A. I was first a financial-intelligence officer with the SHAEF mission to France, and also at Versailles as financial-intelligence officer.

When the war was over and we were in Frankfurt, I was chief of the Financial Institutions Branch of the Office of Military Government for Germany; and then in Berlin, [fol. 3897] under General Clay, I was chief of the Foreign Exchange & Blocking Control Branch for the Military Government of Germany.

Q. After you came back did you progress in the department.

A. Yes. I came back in the middle of 1946 to my old job, and on September 1, 1950, was appointed Third Deputy Comptroller of the Currency by the then Secretary of the Treasury, John Snyder.

Q. And you held that position how long?

A. Approximately one year. Then I was appointed Second Deputy owing to a vacancy; and then on, I believe April 18, 1962, I was appointed the First Deputy Comptroller of the Currency.

Q. What Federal Reserve Districts were assigned to you?

A. At that time, as the First Deputy, I carried the Philadelphia District, the Cleveland District, the New York District, and the San Francisco-West Coast District.

It was a very heavy assignment, and I might add that as time went on I had to have some relief, particularly when a good many legislative matters arose in Washington involving our department; and so for the last two years at least before leaving Washington I assigned the Third and Fourth Districts, Philadelphia and Cleveland, to our Chief National Bank Examiner, who normally did not carry such districts.

[fol. 3898] Subsequently, the Congress authorized the appointment of an additional Deputy Comptroller to relieve that situation.

Q. But during that period you were in charge of the Third Federal Reserve District, among others?

A. For most of the time.

Q. For most of the time.

Who was Comptroller when you became First Deputy?

A. Preston Delano.

Q. Was there a period when the office of Comptroller was vacant?

A. Yes. Preston Delano left in January of 1953. Mr. Ray M. Gidney became the Comptroller of the Currency approximately in the middle of April the same year; so for that short intervening period I was legally the Acting Comptroller of the Currency.

Q. Did you have anything to do with the FDIC or any duties with respect to the FDIC during that period?

A. Yes. From the time I became First Deputy Comptroller of the Currency in early 1952 until I left I attended the Federal Deposit Insurance Corporation Board meetings in the absence of the Comptroller, when he was away from [fol. 3899] the city or ill; and during the short period that I was legally the Acting Comptroller, of course, I was at that time legally the Acting Vice-Chairman of the Board of the FDIC.

Q. Now, as First Deputy Comptroller will you tell us briefly what your duties and what your experience were, particularly in the field of mergers?

A. As First Deputy Comptroller of the Currency I reviewed with great care all of the applications involving mergers, consolidations, or purchases and sales where the continuing bank was to be a national bank.

I met with delegations of bankers submitting the proposals. I was instrumental in devising many forms in connection with outlining the applications made by banks in connection with such proposals.

I, of course, discussed them carefully with the Comptroller of the Currency and gave him always my views and recommendations.

In a few cases, when the Comptroller was ill or away, I would act on such applications, although I should hasten to add that I did not act on mergers or consolidations without having discussed it with the Comptroller, where the merging banks were very large institutions.

Q. When did you terminate as First Deputy Comptroller?

A. I terminated on May 15, 1960, when I joined the [fol. 3900] Republic National Bank of Dallas.

Q. What is your position there?

A. I am Senior Vice-President, I am a member of the Executive Committee, a member of the Commodity-Loan Committee, a member of the Trust-Investment Committee.

I participate in connection with all lending activities and obviously, as Chairman of the Investment Committee, in connection with the bank's investment account I am in the top spot there under the president of the bank.

I work on special projects and plans. I am a director and vice-president of the Republic Small Business Investment Company recently formed.

Q. Tell us briefly about that.

A. Well, I believe it was early in 1959 that the Congress enacted legislation permitting groups of individuals to form small-business investment corporations. At that time banks were authorized to invest up to 1 per cent of their capital and surplus in the stock of small-business investment companies. Generally speaking, that would be in the singular because 1 per cent of a bank's capital and surplus, unless

it was indeed a large bank, would not be enough to do more than to invest in one small-business investment company.

We have recently formed such a company in Dallas. 1 per cent of our capital and surplus—well, it's actually some- [fol. 3901] what in excess of a million, but we rounded the figure off. We have $105 million of capital and surplus, but we invested $1 million in the capital structure of the small-business investment company, which is designed to make loans to small businesses as defined under the Act.

If you wish me to define that——

Q. No.

A. All right.

Q. You are here under subpoena, aren't you?

A. Yes, I am, sir.

Q. When were you asked to testify in this case?

A. You called me over the telephone approximately in the middle of April. I should have made a note of it, but I did not.

Q. That's perfectly all right.

A. But it was approximately the middle of April when you called over the telephone and I told you I would take it under advisement.

Q. When you were subpoenaed you decided to come?

A. When I was subpoenaed and learned that I could be subpoenaed in far-off Dallas in such a manner that I legally had to come, I decided that I would put in the necessary work so that I could be as effective a witness as possible.

Q. What have you done in the way of effective work?

[fol. 3902] A. Well, I have been in conversations with you and your associates and bank associates relative to the preparation of some of the schedules that I have no doubt have been placed in evidence here, merely from the standpoint of trying to arrive at the most effective presentation of the facts.

I have spent a good deal of time, of course, in going over details, attempting to refresh my recollection of Philadelphia banking and area banking.

Q. What was your experience or knowledge of Philadelphia banking? You say you wanted to refresh your recollection?

A. Well, of course, I had reviewed the reports of examina-

tions of Philadelphia banks—Philadelphia area banks for years. I had discussed matters involving such banks with our customers, with our District Chief Examiner.

I had, on many occasions, spent time in conferences with Philadelphia and Philadelphia area bankers and possibly last but not least many, many hours in connection with reviewing branch-application proposals and also merger proposals that were dealt with during the period I was in office.

Q. Did any of those things bring you into contact or information with respect to banks other than national banks; in other words, state banks?

A. Oh, yes. From time to time, primarily from the stand-[fol. 3903] point of a state banker protesting a branch application made by a national bank, feeling that his own area was being infringed upon; and as time went on at various meetings, gatherings, I did meet some state bankers, but not to the extent that I had with national bankers.

Q. Passing on such matters as mergers or applications for branches, would you there get involved in information with respect to the state banks?

A. Yes, to some extent I did, but the coverage would not have been complete.

Mr. Littleton: Cross-examine as to qualifications.

By Mr. Reycraft:

Q. Mr. Jennings, are you appearing here on behalf of the Comptroller of the Currency?

A. I am not.

Q. Or on behalf of his office in any way?

A. I am not.

Q. You are here as a private individual?

A. I am, sir.

Q. From 1952, when you were First Deputy, to the time you left the Comptroller's Office, approximately how many mergers were submitted for your consideration?

A. This is simply a rough guess, but I would suppose [fol. 3904] between 1952 and 1960, seven or eight hundred. It might have been six hundred between six and eight hundred, let's say.

Q. Did you personally have the opportunity to consider each of those?

A. I would say with a negligible number of exceptions I did have such an opportunity. A very few might have gone through while I was away from the office or on vacation.

Q. What sort of records were submitted to you with these mergers?

A. Well, of course, it varied some over the years. Toward the latter part of the period I served as First Deputy we had a regular, in effect, loose-leaf form on which schedules and questions appeared. The schedules had to be prepared by the banks; the questions had to be answered so that when the material did come into the Comptroller's Office it was easy to digest, easy to review as opposed to some of the procedures that preceded that period when we got all or at least most of the same information, but not in as nice form.

Q. Did you consider any information outside that particular report?

A. I would say that invariably we would check with the Federal Reserve people in Washington or the Federal Deposit Insurance Corporation people; quite frequently, the State Superintendent of Banks would get in touch with [fol. 3905] us. I don't know that we necessarily always got in touch with him during the entire period.

We would always honor the request of any individual or group that wished to come in to see us in opposition to the merger or a group who was in favor of it.

It varied. There were some small mergers, of course, where I don't suppose the outside contact amounted to very much. We made our own investigation.

Q. Did you receive reports from bank examiners in connection with these mergers?

A. During the early period I would say not. We always received, of course, the opinion of the District Chief National Bank Examiner. I would say in some cases, the examiner who had actually examined the bank was not questioned about it. We had his reports, a series of reports over the years in connection with the bank concerned, and we would review that.

Where we knew that the soundness and solvency of the bank or banks was not at question, we normally would not

go beyond the chief examiner, and really that's far enough because he is in charge and knows all of the circumstances regarding the banks in the district he supervises.

Q. Before you left the Comptroller's Office, did you have any opportunity to consider any bank mergers submitted [fol. 3906] under the recent amendments to the Federal Deposit Insurance Corporation Act?

A. I did not. That law became effective shortly after I left.

Q. Shortly after you left?

A. Yes.

Q. So you have no familiarity with it, do you, with the procedures now being followed by the Comptroller's Office?

A. A general familiarity. I happened to see a copy of the form that is now sent to the banks proposing a merger. I have not spent any real amount of time studying it.

Q. What were the criteria which were applied at the Comptroller's Office to mergers during the time you were First Deputy?

A. I would say that in all instances the more important questions revolved around the soundness of the banks, the adequacy of their capitalization, the soundness of the management, whether or not the resulting merged bank would be adequately capitalized, whether or not it would be a sound institution in an area where we believed it could go ahead.

Also, we gave very careful consideration to the terms of the merger, whether there was a swing in value from one group to the other. We gave careful consideration to [fol. 3907] determine that the shareholders voting on the proposed merger were adequately informed.

We gave consideration, of course, to the competitive situation that would arise out of the merger, if consummated.

Q. What type of consideration did you give to the competitive factor?

A. Well, naturally we considered the entire banking community an area, the number of banks in the area, the size of the banks, the size of the two banks that were proposing merger—the usual factors that would be considered in connection with a merger under the existing law in my opinion.

I do believe at the present time that certain details are gone into that were not gone into during most of the period

I served as First Deputy; but, as I am sure you are aware, during the latter part of that period I believe the Office of the Comptroller of the Currency and the other supervisory agencies were obtaining all or virtually all of the data that are now being obtained; some of it, I am sure, at the suggestion of the Department of Justice.

Q. You gave consideration to—I don't remember the number of factors, but to a large number of factors, as far as your testimony is concerned; and you considered these factors to be important; I take it.

[fol. 3908] A. We certainly did.

Q. And if any one of them did not meet with your standards, would you disapprove the merger?

A. Well, of course, it would depend on the seriousness of the deviation.

Q. So your answer is "no"?

The Court: Read the question and answer back.

(The testimony was repeated by the reporter as follows:

"Q. And if any one of them did not meet with your standards, would you disapprove the merger?

"A. Well, of course, it would depend on the seriousness of the deviation.

"Q. So your answer is 'no'?")

Mr. Littleton: Your Honor, I think here I want to interpose an objection because I don't think this is cross-examination as to Mr. Jennings' qualifications.

Mr. Reycraft: I don't have any more; it's all right. Go ahead.

The Court: Since we are going into a new department at this point I think we will take our ten-minute recess.

I suggest, Mr. Reycraft, that when a witness gives the [fol. 3909] kind of an answer that was given here you not categorize it. I will do the categorizing.

(A recess was had.)

[fol. 3910] By Mr. Littleton:

Q. Mr. Jennings, what is the nature of competition among commercial banks?

A. Keen, highly competitive. I think, from my own ob-

servation, that I have never known competition among banks to be keener than it is today. Now, if you wish the nature of it in detail, I will be happy to go into that.

Q. In what area does competition exist? In what area of commercial banking does competition exist?

A. I think the stiffest, sternest competition of all is in the field to obtain demand deposits and loans. Those are the two areas where competition is the keenest.

Q. What form does the competition take?

A. It takes many forms. If we are dealing with the deposits of large corporations, wealthy individuals, I would say that most, if not all, of the major banks of the country are competing for such deposits. The same would hold true as regards loans to those corporations or wealthy individuals.

If we go into the field of smaller loans, smaller deposits, the competition is more regional—wide but nevertheless regional—and there the large banks as well as the small banks are after that business with everything they have.

Today all banks are after what is commonly referred to [fol. 3911] as the mass banking business, and in the field of medium size and smaller deposits and loans every single bank in a community or area is competing for the business. They want it.

When it goes into an area where the lending requirements cannot be met by smaller institutions, almost automatically it emerges into an area where not only the large institutions of a single community are interested, but large institutions throughout a section of the country or the whole country becomes interested, and they are soliciting the business, so that basically we have a situation where banking business of all types and characters is sought after by the smaller banks at the more regional level and by the larger banks on a national level.

Q. What form does the competition take? Is it competition in price?

A. No, I wouldn't say that it is competition as to price. After all, interest rates are regulated at the top level by the laws of the 50 states. Interest rates at the bottom level have no legal limitation, but for practical purposes the prime rate, which is dictated in a major way by the rediscount rate of the Federal Reserve Bank, furnishes a very

effective floor. I would say that the area of competition for interest rates would range between, let us say, the prime [fol. 3912] rate of 4½ and 6 per cent for normal loans exclusive of consumer loans, where higher rates are permitted.

When we go over to the deposit side—we are still talking about price—interest may not be paid on demand deposits. It is set at a top limit by the Federal Reserve Board and the Federal Deposit Insurance Corporation for commercial banks at 3 per cent or less, depending on the length of time the time deposit is left with the bank.

In the area of service charges, I would say that banks are competitive in that field. They base their service charges primarily on their costs, but they have to maintain a weather eye to windward as to what the competitors are charging in the service charge field. The minute they get out of line in connection with service charges they find their customers will start to protest, and if something isn't done some of the customers will leave them for a differential in service charges of any significance.

I do not believe that competition is really affected by the price area. I think it is affected largely by the quality and the caliber of service that banks give and whether or not they feel they are being received in the right way, whether they are welcome in the bank. Personalities enter into it very heavily, but I do not think price as such is a major factor in banking competition. It is there, it is a factor, [fol. 3913] but not major.

Q. You were in the courtroom, were you not, when Professor Smith testified?

A. Yes, I was, sir.

Q. And you read his testimony. I believe he suggests that in the field or the area of the creation of credit, which he described as being unique in commercial banks, that in that area they compete with each other. Would you give us your opinion of that?

A. I disagree with Professor Smith. The fact is, and I believe a majority or possibly almost all of the experts agree, that a single bank as such does not create credit other than momentarily. Actually, credit is created by the entire banking system in conjunction with the Federal Reserve System, but I can assure you—and I am positive that bankers all over the country would agree with me—

that a bank may not expand its loans or its investments unless it has excess cash reserves available to take care of that expansion, and I just believe myself thoroughly and completely that the creation of credit is not a competitive factor that needs to be considered at all in connection with mergers or any other phase of banking.

Q. Professor Smith and also Dr. Harris each talked at some length about the regulations and restrictions under [fol. 3914] which commercial banking is carried on. It is not my intention to take you all through that again, but I would like you to give us your view on the effect of regulation in certain areas on competition among commercial banks, the area within which they compete. How is that affected by regulation? You have already spoken about interest.

A. I have already spoken about interest. Of course, banks must maintain their legal reserves either with the Federal Reserve authorities, or if they are state, non-member banks, with banks according to the provisions of the state law.

Q. Let me ask you, is there any regulation or ruling on liquidity which a commercial bank must have?

A. No, there is no regulation or ruling pertaining to liquidity. That is left up to a bank's management, other than to the extent that we might look upon the reserves maintained with a Federal Reserve Bank as a liquidity reserve. Actually, that is an erroneous conception, so I would say we might disregard that. Actually, liquidity has to be handled as a policy matter by a bank's management.

Now, liquidity, by classes of banks, does not vary too much. I would say that at the present time, if we lumped together all of the commercial banks of the country, we would find that all of their demand and time deposits were covered up to the percentage figure of 49 to 50 per cent by [fol. 3915] cash due from banks, their reserve balances, and their U. S. bonds. Obviously, because of that, because of the liquidity requirements, the necessity that a bank maintain a large amount of cash or due from banks balance in the Federal Reserve Bank, those are non-earning assets, and they cut down on the earning capacity of a bank so as to be able to maintain its liquidity. After all, a banker has to keep in mind at all times that deposit withdrawal de-

mands—on demand, so far as demand deposits are concerned, or within the terms of the savings or time deposit agreements—must be met or insolvency immediately occurs.

Q. Well, if the only reserve that the bank maintained were the reserve required by the Federal in the reserve cities, which I understand is presently 16½ per cent——

A. That is correct.

Q. ——would the administrative authorities, the Comptroller or the Secretary of Banking, have any authority to require the bank to keep reserves other than that?

A. I would say that that would constitute an unsafe and unsound practice and policy.

Q. What would?

A. Maintaining liquidity only to the extent of the reserve balance with the Federal Reserve Bank and with no additional liquidity of any consequence, the bank would be, in my judgment, in a serious situation in a very short period [fol. 3916] of time. Therefore the supervisory authorities would request that a greater amount of liquidity be maintained, because of the dangers inherent in such a situation. If it were not corrected, I have little doubt that the supervisory authorities, thinking of the Comptroller particularly, would warn offending bankers under Section 30 of the Banking Law, and if it were not corrected quickly, the facts would be cited to the Federal Reserve Board for the removal of the offending officers or the directors, because it is a desperate situation when a bank maintains liquidity only to the extent of the reserve with the Federal Reserve Bank.

Q. And that is why you say reserves are usually in the area of 49 to 50 per cent?

A. The liquidity situation over all will run around 50 per cent now. Actually for a number of years it ran somewhat higher.

Q. What effect does that have on the earning capacity of commercial banks so far as the use of their assets?

A. It cuts down the earnings substantially, because as we all know, interest rates on Government bonds are on the low side. No income is received from the reserve balance with the reserve bank. No interest is received on due from

bank balances from correspondent banks, and, obviously, nothing accrues from the cash.

[fol. 3917] Q. What effect does that have, if any, on competition?

A. Well, what it really does is narrow down the profit margin in commercial banks to a point where unbridled competition from the price standpoint cannot be indulged in. There is not a sufficient profit margin to allow wide variations in prices charged for services or money.

Q. What are the powers or the restrictions we will say, on commercial banks in the investment and securities as a means of using their assets to produce income?

A. There are no restrictions, of course, in connection with the purchase of U. S. bonds or general obligation municipal securities. However, banks are prohibited from buying corporate obligations or special revenue municipal obligations where the credit soundness characteristics are unduly speculative. As a matter of fact, that translates itself roughly into limiting banks to purchasing corporate securities that are in the first four investment grades.

Q. When you say securities, you are not including stocks?

A. Oh, no, just bonds. The first four grades would range from triple A down to triple B. If a bank buys a security below triple B, normally it will be looked upon as an illegal investment and must be disposed of without loss. There are minor exceptions to that, but there again it prevents a bank [fol. 3918] from investing unwisely perhaps in a securities area that always provides the highest interest rate. The lower the quality, obviously, the higher the rate, so the banks have to stay in the high-quality securities, where the rates are on the relatively low side.

Q. What effect does that restriction have, if any, on competition?

A. Well, I think that would be quite similar to what I mentioned a few moments ago.

Q. In the establishment of branches what are the regulations or restrictions, briefly?

A. A bank has to receive approval from its supervisory authority in order to establish a branch. There are many or at least several important things that are considered by the Comptroller before he acts on a branch application, but I would say that one of the more important areas would

rest in a determination as to whether the establishment of the proposed branch would have an unwarranted competitive impact on existing banks or branches in the area. If he finds that the competitive impact might make uneconomic existing branches or banks, he invariably will deny the application on the premise that safety and soundness, solvency, are paramount in banking. They are overriding, and competition simply cannot reign supreme. Safety and soundness must reign supreme.

[fol. 3919] Q. So far as you know, is this also the philosophy of various state secretaries of banking?

Mr. Reycraft: I object to his testifying as to the philosophies of state authorities by Mr. Littleton.

Q. In your experience, have observed similar philosophies——

Mr. Reycraft: I object.

Mr. Littleton: May I finish?

Q. ——on the part of the secretaries of banking in various states?

Mr. Reycraft: I object to that question.

The Court: Read the question back.

(The reporter read as follows:)

> "Q. In your experience, have you observed similar philosophies on the part of the secretaries of banking in various states?"

Mr. Reycraft: I object to his testifying as to the philosophy of anybody except himself.

The Court: Overruled.

A. I have had wide experience with state superintendents throughout the nation. I would answer that, generally speaking, that is the philosophy of state superintendents of banks.

By Mr. Littleton:

Q. Will you direct your attention to the insured deposits. What is the FDIC?

[fol. 3920] A. The Federal Deposit Insurance Corpora-

tion insures the deposits of insured banks up to $10,000. The banks that are insured have to pay an annual assessment to receive this insurance. The FDIC fund presently amounts to about $2,220,000,000. The FDIC has a call on the Treasury for an additional $3 billion.

One thing that has grown out of Federal Deposit Insurance is this: Years ago banks prided themselves and did a great deal of advertising from the standpoint of placing before the public the fact that they had very strong capital structures. Now, many banks still do that, but in view of the fact that so many of the depositors in banks are fully insured, they have lost their awareness, in part, as to the sound, large capital structure of a bank. They deposit their money feeling that they are completely covered by insurance, and so that has removed to some extent what used to be a competitive factor.

Q. Let me ask you about that. What is the present rate of assessment that FDIC imposes on banks?

A. It is a twelfth of 1 per cent of the average outstanding deposits over the year. However, when that amount is paid into the Federal Deposit Insurance Corporation, a rebate is made to the bank amounting to 66⅔ of the remaining amount after the FDIC has paid all of its expenses plus its losses for the year, so that there is quite a substantial [fol. 3921] rebate that goes to the banks after they have paid the basic assessment.

Q. Do I understand that that assessment is applied to all the deposits of the bank?

A. Yes, it is.

Q. And to what extent are the deposits of a bank insured?

A. I may be off a percentage point or two, but the total accounts as to number——

Q. First, before you get into that, what part of my deposit, if I were lucky enough to have one, would be insured?

A. Up to $10,000.

Q. So the deposits are insured only up to $10,000, although the assessment is applied against all the deposits?

A. That is correct.

Q. What is the effect of that, Mr. Jennings?

A. The effect of it is that the deposits of a small bank

are, for practical purposes, almost 100 per cent insured, whereas the deposits of a very large institution, an institution having very large balances of corporations, wealthy individuals, might be only 20, 30, 35, 40 per cent insured, yet the large bank is paying an assessment rate on the same formula or under the same formula as the smaller institution.

Q. What effect if any does this have on competition among commercial banks?

[fol. 3922] A. Oh, that is difficult to say, as to the effect it has on competition. Of course, it, in effect, makes the small banks very, very competitive with the larger institutions. It certainly does not reduce the strength of the small institution competitively. Of course, the large institution just has to have that very large capital structure in order to assure and insure its large depositors that may put 5, 10, 15, or 20 million on deposit that the bank itself is completely sound, because that deposit would only be insured up to $10,000.

Q. Now will you turn your attention, Mr. Jennings, if you will, to the desirability of large banks in an industrial community. Will you give us your view as to that?

A. I think it is essential that every industrial community have a bank that is sufficiently large, sufficiently well capitalized, to reasonably meet the borrowing needs, the deposit needs, of not only the corporation, but the various industries that would be in that community. It has been my observation over the years that if a community—and I am talking about communities generally, not just necessarily New York City or Pittsburgh, but communities generally—if they do not have a lead bank that can reasonably look after the larger needs of industry and commerce in that community, the people, those wealthy people or the larger corporations, look elsewhere for larger banks. I have ob-

[fol. 3923] served that on many occasions.

Q. Will you look at Exhibits D-25, D-15, D-24.

A. I have D-25, "A comparison of general economic growth with bank growth in the Delaware Valley."

Q. Correct. Will you comment on the facts shown by that exhibit, Mr. Jennings?

A. Yes. On the left-hand side, "General economic growth indicators," the No. 1 bar shows that total sales of large

corporations have expanded or increased between 1940 and 1959 in excess of 400 per cent.

The value added by manufacture, under bar 2, has increased, let us say, 475 per cent.

Q. Is that per cent or is it an index number?

A. Yes.

Q. I say, is it a per cent or an index number on the chart?

A. That would be an index number, I believe. Yes, it would be an index number.

Personal income, under No. 3, 1940 to 1957, the index number is slightly in excess of 400.

At the right-hand side, "Bank growth indicators," No. 1, total assets of the Philadelphia commercial banks, up to a figure of maybe 225, 230.

The lending limit of the Philadelphia National Bank, an [fol. 3924] index number of approximately the same 225, 230, and then at the far right, under No. 3, the lending limit of the Philadelphia National Bank-Girard (pro forma), which would bring the lending limit to a figure of 425, 430 on an index basis.

Q. What is your opinion, from the chart that you have been reading from, as to the desirability of this present merger for Philadelphia?

A. Well, it just seems to me that this clearly reveals the fact that commerce and industry in the Philadelphia area have far outstripped banking. Banking simply has not kept pace in the Philadelphia area with the growth of industry and commerce.

Q. Should it keep pace, in your opinion?

A. I think it should. I think the Philadelphia banking situation is well behind what it should be in relation to the needs that I am sure exist in Philadelphia for a larger lending limit and a larger financial institution generally.

Q. Does the larger lending limit have any beneficial effect that goes beyond the number of times that it is actually used during the year?

A. I think it does.

Q. Will you clarify that.

A. I would say that all large banks with large lending limits do not have too many opportunities during the course of a year to make what we might term limit loans; but the [fol. 3925] mere fact that a bank or banks in a community

have a substantial, a large, lending limit is bound to accrue to the advantage of the community, because industries and businesses like to feel that they can do business with a bank where, if the need does arise, there is a local bank that can take care of that need. They are a little restive when they are dealing with a bank and feel that if the need arises they may have to go elsewhere, unless we are dealing with a very large national corporation, where no one bank normally could take care of its needs.

[fol. 3926] Q. Before we leave that, are you familiar in general with the lending limits of the largest banks in other cities smaller than Philadelphia?

A. Smaller than Philadelphia?

Q. Yes.

A. Oh, I am to some extent, yes. Naturally, I am familiar, if you wish me to answer——

Q. Yes.

A. —with my own bank in Dallas. Our lending limit is $10,500,000. Our city, if we add in the county, has a bit under a million total population. We find that during the course of a year we have need for that $10,500,000 lending limit on a number of occasions. It has been most valuable to us.

I am quite sure that Cleveland, Ohio, has a bank with a larger lending limit than anything here in Philadelphia. I would have to check the statistics to name off other cities that are smaller. I would say that San Francisco, obviously, is much smaller than Philadelphia and yet it has a bank with a lending limit of around $50 million.

There are a number of others.

Q. Any other places in Pennsylvania?

A. Pardon?

[fol. 3927] Q. Any other places in Pennsylvania?

A. Oh, yes, the obvious one, the Mellon-Pittsburgh. Pittsburgh is a smaller city than under Philadelphia and yet it has a bank with a lending limit of $25 million or $30 million. I have forgotten the exact amount.

Q. Let me ask you, is there any difference in the general character of business and industry in these smaller cities that have banks with larger lending limits than Philadelphia, from what we have here in Philadelphia?

A. The only difference that I think it outstanding is the

fact that based on my own knowledge of Philadelphia, Philadelphia is far more of an industrial and commercial city than Dallas, San Francisco,——

Q. Boston?

A. Yes, even than Boston. Not Pittsburgh, of course.

Q. If you take not just Philadelphia, but if you take the ten-county area which we have referred to as the Delaware Valley, does it become even more so?

A. Oh, it becomes even more pronounced. After all, Philadelphia is the fourth largest city in the country and there are a fair number of smaller cities that do not compare with Philadelphia from the standpoint of its industry and the needs of the people, yet those other cities have banks with lending limits far higher than anything in Phila- [fol. 3928] delphia; and I can tell you from my own experience that those lending limits are needed.

I would just like to repeat and emphasize that even though not many occasions arise during the course of a year for a bank to make a legal limit loan, when it does arise it's worth a great deal and it keeps a lot of business at home rather than having it go abroad, to other banks throughout the nation.

Q. Does it have any effect deposit-wise?

A. Oh, I think it does, very definitely. We all know that capital attracts capital; and moreover, if a bank in a community, the lead bank from the standpoint of its lending limit, is not able to take care of at least the reasonable requests of borrowers, exclusive of the national accounts that need tremendous sums, it is necessary to enter into an arrangement with banks in other cities to take on a portion or portions of the loan; and it is inevitable that the bank or banks in the other cities are going to require that that borrower maintain a deposit balance while the loan is outstanding, and generally speaking that deposit relationship continues when the loan is paid off, so that the excess funds of the borrower will be found in two, three, four, or five other banks around the nation during the slack period of the borrower, when his loan has been paid, instead of in [fol. 3929] the bank in the home city where those excess funds could be used to good advantage.

Q. So that the effect is that you have local industry having to maintain deposits in foreign cities and not

having those deposits available for business in the local city; is that correct?

A. It works that way frequently when a loan must be participated out.

Q. Mr. Jennings, do you know what the percentage of the deposits, loans, and capital structure of the Philadelphia area banks will be in the merged bank without looking at the exhibits?

If not, I will have the exhibits presented to you.

A. The percentage—I would like to have the question repeated.

The Court: Read it back.

By Mr. Littleton:

Q. What percentage of the deposits would the merged bank have?

A. (No response.)

Q. In the City of Philadelphia?

A. Just the City of Philadelphia?

Q. Yes.

[fol. 3930] Mr. Reycraft: Would you read the question? I am not sure I understand it.

Mr. Littleton: Strike the question.

Will you show the witness G-2?

By Mr. Littleton:

Q. In the four-county area, so-called, and that is Philadelphia, Bucks, Montgomery, and Delaware, what percentage would the merged banks have, according to Exhibit G-2?

A. 35.8.

Q. What will the competition of the merged bank be in the four-county area?

A. Well, the competition would be fifteen additional banks, if this is what you are driving at. We have seventeen banks in Philadelphia——

Q. Will it compete with any other institutions in the matter of deposits?

A. Oh, I see.

Yes, it would compete not only with additionally the

banks, but it would also compete with the banks throughout the country for large deposits. It would compete locally for the funds of savers—the credit unions are active, the savings and loan associations, the large savings banks.

It will, of course, compete, in effect, against United States bonds. Many people prefer to place their money [fol. 3931] there rather than in banks.

Is this the line of reasoning that you are interested in, Mr. Littleton?

Q. Yes, yes.

A. It would compete at the local level against all of the commercial banks in the four-county area, and, as a matter of fact, to a certain extent in the ten-county area for both time and demand deposits and for loans and all other types of services that banks render.

Q. At any time in the course of your official duties, in the course of your work, have you, yourself, made a study of concentration in various cities in the country of banking assets or deposits?

A. Yes, I have, on various occasions, particularly while I was with the Office of the Comptroller of the Currency.

Q. What was the result of that survey? Was there a report made by the Comptroller of the Currency?

A. Yes. We made at least two complete reports, one involving reserve and central-reserve cities, which I am quite sure is one of the exhibits in this case.

In addition to that, I supervised the preparation of a study in 1957 covering all of the cities in the country having a population of 50,000 or more.

That study was made primarily to obtain information [fol. 3932] to be placed in the annual report of the Comptroller of the Currency for the year 1956. The study itself was made early in 1957.

Mr. Littleton: Will you mark that, please?

(Document headed "Recapitulation," containing 18 pages, was marked Exhibit D-46 for identification.)

By Mr. Littleton:

Q. Mr. Jennings, I show you the document which the reporter has marked D-46 for identification and ask you what it is.

A. It is the study I referred to. It deals with all cities in the country of 50,000 population or more; and I might add, in order to obtain full coverage, a very few cities having populations under 50,000.

It reveals the number of banks operating in these communities in 1946, the number in 1956; the percentage of total resources held by the largest bank in 1946, the largest in 1956; then the percentage held by the two largest banks in 1946 and 1956; and the percentage held by the remaining banks for 1946 and 1956; and then, showing the total of all the banks in the schedule, setting forth the total amount of resources of all the banks in a particular community as of 1946 and 1956.

I think, simply to summarize, that it is of interest to know that of the 224 communities for the year 1956, 190 of them, [fol. 3933] had lead banks that held 35 per cent or more of the total banking resources of the community.

Now, the 190 banks break down into an additional interesting statistic. 42 per cent of the 190 banks are in communities where the lead bank had between 35 per cent and 50 per cent of the total banking resources of the community.

43 per cent of the 190 banks were in communities where the lead bank held in excess of 50 per cent of the total banking resources of the community.

So that we come down to the final figure of 85 per cent of the 224 communities having a population of 50,000 or more were served by a bank having 35 per cent or more of the total banking resources of each community.

I might add that with the possible exception of a one-bank community or two appearing in the list, it was my judgment at the time the study was made (it continues to be my judgment) that the people residing in all of these communities were receiving the benefit of adequate banking competition.

Mr. Littleton: Will you mark that, please?

(2-page document, entitled "Assets of the Largest Commercial Bank as per cent of Total Assets of All Commercial Banks in Cities with Population Over 100,000," was marked [fol. 3934] Exhibit D-47 for identification.)

By Mr. Littleton:

Q. Mr. Jennings, I show you a paper which the reporter has marked D-47 for identification and ask you what that is.

A. It's a list entitled "Assets of the Largest Commercial Bank as per cent of Total Assets of all Commercial Banks in Cities with Population Over 100,000."

I did not prepare this exhibit, by the way. On the second page the sources are noted. I accept it as accurate.

I think there are several points of interest. One is that Philadelphia, Pennsylvania, appears as No. 79, as holding on a pro-forma basis, after giving effect to the merger, 36.2 per cent of the total assets of the city, the total banking assets of the community.

Then, going over to the beginning of the schedule and just thinking about Pennsylvania for a moment, we find that Pittsburgh, Pennsylvania, is No. 12. It has a bank holding 60 per cent of the banking resources of Pittsburgh.

Running on down the list, No. 18, Scranton, Pennsylvania —its lead bank holds 56.6 per cent of the banking resources of that community.

Running on down to No. 37, Allentown, Pennsylvania, [fol. 3935] the lead bank has 48.3 per cent of the total banking resources of the community.

Moving on down, Erie, Pennsylvania, 39.6.

I might just point out, because it is in the general Philadelphia area, Trenton, New Jersey—the lead bank has 37.8 per cent.

Q. How about Camden?

A. (No response.)

Q. No. 17?

A. Oh, yes, Camden, New Jersey, which is just across the river—the lead bank, as we heard this morning, has 56.6 per cent of the total banking resources.

Q. Do I understand from you and from this chart that every city in Pennsylvania over 100,000 population has a higher concentration in the first or lead bank than Philadelphia would have if the Philadelphia-Girard merger becomes effective?

A. That is correct.

Q. And two other cities within the Delaware Valley area, to wit, Trenton and Camden?

A. Camden, New Jersey, and Trenton, New Jersey, both

have lead banks having a greater concentration of banking resources than Philadelphia.

I think it is also very, very interesting simply to go down [fol. 3936] through the list to No. 78, looking at all of the important cities where the lead bank has a greater concentration of banking resources than would exist in Philadelphia if this proposed merger were to be consummated; and in my judgment, based on having seen examination reports from banks, I believe, from each of the cities concerned, the public is enjoying the benefits of adequate banking competition.

Q. Mr. Jennings, will you address yourself to D-46, the third page being the page headed "Cities with 50,000 to 100,000 Population"?

Will you pick up the third city in that list, which has an "x" alongside of it, and tell us what the meaning of those x's is.

A. There are a number of California cities with x's to indicate that the cities concerned are served by one or more, and I would say it would be more correct to say two or more branches of large California banks, and it is most difficult to obtain figures to incorporate in a schedule of this type.

Q. Now addressing yourself both to D-46 and D-47, will you tell us, why does this so-called banking concentration exist, in your opinion?

A. I have given a great deal of thought to that. When I [fol. 3937] first reviewed this schedule a number of years ago, I was a little surprised at the number of cities, 85 per cent, that had a concentration from the lead bank of 35 per cent or more; in 43 per cent the lead banks having over 50 per cent concentrations. It is my judgment that this situation exists because there is a need in these communities for a lead bank large enough to accommodate the borrowing needs, the general banking needs of commerce and industry in the communities. I just don't believe it happened.

There are many of these communities where there have have been no mergers, in my judgment, in recent years. The schedule is not set up on that basis, but I am quite sure that a study would reveal that to be true; but a city that does not have a bank that, from its legal lending limit, from the standpoint of its legal lending limit, can't reasonably meet a majority of the larger lending needs, that city isn't being well served. These banks grew out of that need.

Q. Now, on another subject, Mr. Jennings, or following along from this one, has the fact that 85 per cent of these cities have lead banks holding 35 per cent or more of the banking resources resulted in the smaller banks in those areas being unable to compete?

A. No, not in my judgment.

Q. Is your judgment backed up by the figures?

[fols. 3938-3939] A. Pardon?

Q. Is your judgment backed up by the figures?

A. Yes, it is. We made a recapitulation on that point. I do not believe, Mr. Littleton, that we incorporated it in this schedule. I may have the figures here to one side. I do no have them in my mind.

The Court: Suppose we pick it up at this point tomorrow morning. It is now 4 o'clock.

(Recessed at 4:00 P. M. until 10:00 o'clock A. M. on Thursday, July 27, 1961.)

[fols. 3940-3941] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWENTY-FOURTH DAY

Philadelphia, Pa., July 27, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 3942] LEWELLYN A. JENNINGS, resumed.

Direct examination. (Continued)

By Mr. Littleton:

Q. Mr. Jennings, do you have Exhibits D-46 and D-47 before you?

A. I do.

Q. Yesterday you testified that while you prepared D-46, you had not yourself prepared D-47. May I ask you, however, have you checked the figures on D-47 with your own work on D-46?

A. I have checked it.

Q. And are the percentages given for each of those cities on D-47, being cities presently over 100,000 population, the same as the cities from D-46?

A. They are all the same and correct.

Q. With the exception of Philadelphia, of course, which on D-47 is pro forma the merger; is that correct?

A. Yes, I believe I mentioned that yesterday.

Q. Looking at D-46, Mr. Jennings, in the column headed "Percentage Held by Largest Bank," I notice there are two columns, one for 1946 and one for 1956. What is the significance of the difference between the percentage figures

which follow for each of the cities listed between 1946 and 1956?

[fol. 3943] A. It reveals whether the largest bank in 1946 was able to maintain its position or whether it lost ground over the ten-year period. Actually, an analysis will show that more than half of the lead banks in 1946 lost ground in the ten-year interval and held a smaller percentage in 1956.

Q. What does this lead you to conclude?

A. Well, it leads me to conclude that smaller banks in the various communities are adequately and effectively competitive.

Q. What does it lead your to conclude with respect to concentration in the largest bank in each of the cities?

A. Well, it leads me to conclude that the concentration in the largest bank in each of the cities is not an effective deterrent in any way to the adequate functioning and the competitive position of the smaller institutions.

Q. Why, in your opinion, have the largest banks lost ground?

A. Well, I think it grows out of this, that it is perfectly obvious that if a bank in a community holds, let us say, 50 per cent of the banking resources of the community and area, that in order to maintain that position it must get out [fol. 3944] and obtain 50 per cent of all the new business coming into the community. It must hold the business it has, and that is indeed a very tall order, and it has been my observation over the years that under those circumstances, more often than not, the lead bank does lose ground to its smaller competitors.

Q. Mr. Jennings, there has been introduced and marked for identification in this case an exhibit known as D-21.

A. Yes, I have it.

Q. Do you have a copy of it there?

A. I have it, sir.

Q. Will you tell us what D-21 is.

A. D-21 is a comparison of the total assets of commercial banks in the central reserve and reserve cities throughout the United States as of June 29, 1946, and June 30, 1956.

Q. Who prepared this exhibit?

A. The office of the Comptroller of the Currency. It was

prepared while I was there and under my general supervision.

Q. And will you describe it to us and comment on it generally.

A. Yes, I will. The schedule includes details on the total [fol. 3945] assets of the largest five banks in each of the reserve or central reserve cities as of the middle of 1946 and the middle of 1956. It shows the percentage held by the No. 1, the No. 2, the No. 3 banks in 1946, going on through the five largest banks, and then a similar comparison is made ten years later, the middle of 1956, to show what the shift has been within that particular city or community.

My analysis has revealed that in 33 of the cities the leading bank in 1946 lost ground over the ten-year interval and held a lesser percentage of the commercial banking resources at the middle of 1956. In 21 cities the lead bank in 1946 either held approximately even or actually gained a little over the ten-year period. That, it seems to me again, serves to point out the fact that a bank that holds a fairly large percentage of the banking resources of a community has a very difficult job in maintaining that position as against smaller competitors. In other words, the small competitors are providing effective competition.

Q. What is your conclusion from that as to the effect of concentration in one large bank on competition by smaller banks?

A. My opinion is that the smaller banks are able to com- [fol. 3946] pete effectively against the large bank or banks in the community.

Q. Does D-28 indicate that they do?

A. In my opinion, yes.

(Book entitled "Annual Report of the Federal Deposit Insurance Corporation for the year ended December 31, 1960," was marked Exhibit D-48 for identification.)

Q. Mr. Jennings, you have before you a copy of a booklet which has been marked for identification D-48. Will you tell us what that is?

A. That is the annual report of the Federal Deposit Insurance Corporation for the year ended December 31, 1960. This report was prepared by the Federal Deposit

Insurance Corporation for transmittal to the Congress as required by law. As will be noted on the third page, the report was sent to the Congress on June 8, 1961. I might also add that as a matter of normal procedure, a copy of this report is sent by the Corporation to all insured banks.

Q. And your bank in Dallas receives copies of this report along with other F.D.I.C. banks?

A. We receive one copy, yes.

[fol. 3947] (Document headed "Table 26. Relative Importance of the Largest Commercial Banks in Continental United States, December 31, Selected Years 1920-1958" was marked Exhibit D-49 for identification.)

(Document headed "Table 28. Deposits in the Largest Commercial Bank and in the Five Largest Commercial Banks, in Each State, 1920, 1934, 1940 and 1958" was marked Exhibit D-50 for identification.)

(Document headed "Table 29. Deposits in the Largest Commercial Bank, and in the Largest Five Commercial Banks, in the Principal County (or Counties) in 48 Metropolitan Areas, 1920, 1934, and 1958" was marked Exhibit D-51 for identification.)

(Graph entitled "Concentration in Large Metropolitan Areas With Limited Area Branch Banking" was marked Exhibit D-52 for identification.)

(Document headed "Table 38. Relative Importance of the Largest Commercial Banks in the United States, December 31, 1960," was marked Exhibit D-53 for identification.)

(Document headed "Table 39. Commercial Banking Offices and Percentage of Deposits in the Largest Commercial Banks in each State, December 31, 1960," was marked Ex-[fol. 3948] hibit D-54 for identification.)

(Document headed "Table 40. Commercial Banking Offices and Percentage of Deposits in the Largest Banks in the Principal County (or Counties) in 65 Metropolitan Areas, June 15, 1960," was marked Exhibit D-55 for identification.)

Q. Mr. Jennings, will you look at the exhibit that has been marked D-49 and tell us what that is.

A. That is a schedule that sets forth figures designed to outline the relative importance of the largest commercial banks in the continental United States, December 31, selected years, 1920 through 1958. I think it is interesting in the first instance——

Q. Before you speak to it, may I ask you, is D-49 simply a blown-up autostat copy of the two tables appearing on page 51 of D-48?

A. That is correct.

Q. For ease in reading the tables?

A. Yes.

Q. Will you address yourself to Table 26 on D-49, which can also be found on page 51 in D-48, and tell us the significance of the figures which there appear.

A. First I think it is interesting and even significant to note that in 1920 there were 30,444 commercial banks, [fol. 3949] where as in 1958, the end of 1958, there were 13,499. The only thing I need mention there is the fact that in 1920 we reached the high water mark as to number of banks throughout the United States. We were very badly overbanked, in the opinion of most people, at that time, and even though the 1920's were relatively prosperous, there were 5500 bank failures during the 1920's that had nothing to do with the depression of the early 1930's.

Now, moving to the largest 100 banks, I think it is significant to see that the per cent of deposits of all commercial banks of the 100 largest banks in 1934 amounted to 53.6 per cent. It had moved up from 41.9 per cent in 1929, and that, of course, reflects the many bank failures and changes during the depression.

Then in 1940 we find that the 100 largest banks controlled an even larger percentage of the commercial bank deposits, 56.7, but then at the end of 1949 that concentration had dropped to 44.5. At the end of 1958 it had increased in a very minor way to 45.7.

The schedule, I think, is also of interest if we look at the [fol. 3950] largest ½ of 1 per cent of the banks, because it deals with 152 banks instead of merely 100. The percentages, however, follow along quite closely to those revealed in connection with the 100 largest banks, except when we go to 152 banks we find that the percentage in 1940 of 52.2 per cent of all commercial bank deposits in

the 152 banks was reduced to 40.3 in 1949 and had only changed to 40.4 per cent in 1958.

By the Court:

Q. Haven't those 152 banks been cut to 72 and 71 respectively in 1940 and 1949?

A. The 152 banks would, of course, include the same 100 banks plus 52 additional banks.

Q. That was in 1920. By 1929 ½ of 1 per cent meant only 121 banks, and in 1934, as I read this chart, it meant 78 banks; in 1940, 72; in 1949, 71; and in 1958, 67 banks.

A. That is correct, sir.

By Mr. Littleton:

Q. What do you conclude from this reduction in the percentage of deposits held by the largest commercial banks during that period of years of 1940 to 1958?

[fol. 3951] A. Well, I conclude very much the same as I mentioned before, that the largest 100 banks have found it most difficult to maintain their percentage position in the banking field. Competition has been effective and has reduced the percentage held by the 100 largest banks.

Q. On D-49 also appears Table 27, which is on Page 51 of D-48. Will you comment upon that.

A. That sets forth the relative importance of the largest commercial banks or bank groups from 1934 to 1940 to 1958.

Q. What does bank groups mean?

A. That would include bank holding companies and chain bank groups.

Q. Proceed.

A. In 1934 there were 15,006 commercial banks. That runs down to 14,099 in 1940 and to 13,097 in 1958. Now, the largest 100 banks or bank groups held as their percentage of the deposits of all commercial banks 56.7 per cent in 1934, 59.4 per cent in 1940—it went up slightly—and then dropped down to 49.1 per cent.

Now, if we go to the largest ½ of 1 per cent of the banks or bank groups, dealing with a somewhat smaller number, [fol. 3952] in 1934 there were 75 banks or bank groups. They held 53.1. There were 70 banks or bank groups in

1940 holding 54.7, and 65 banks or bank groups at the end of 1958, holding 43.3 per cent.

There again my conclusion would be the same, that these very large institutions are meeting effective competition, and rather than increasing their position, it is being decreased or it has decreased over the period under review.

Q. His Honor's comments as to the decrease in the all-over number of banks would be equally pertinent to this situation, would it not?

A. Yes, I believe it would, sir.

Q. Now would you look at Exhibit D-50 which is Table 28 of D-48, appearing on page 54 of D-48, blownup in size for easier reading, and will you tell us what that is.

A. This reveals the deposits in the largest commercial bank and in the largest five commercial banks in each state as of 1920, 1934, 1940, and 1958. It is broken down to distinguish between states where branch banking is prevalent, where only limited branch banking is permitted, which is the situation in Pennsylvania, and the states where [fol. 3953] branch banking does not exist.

On the left-hand side of the schedule is revealed the percentage of all deposits in the largest bank or bank group, and going down to the 16 states where limited area branch banking is prevalent, we find in the State of Pennsylvania that it held 13.4 per cent, the largest bank held 13.4 per cent, as of December 31, 1958.

Now, as of December 31, 1940, I believe an explanation is needed, because it shows a figure of 11.4 per cent, and then in parentheses 18.5 per cent, and it is my understanding that that is to reveal the situation that existed in Pittsburgh, Pennsylvania, where the Mellon National, and I believe it was the Union Trust, both owned by the Mellon interests, are included in the 18.5, whereas the 11.4 per cent figure would include just the larger of the two institutions.

The same, I believe, would be true for December 31, 1934, so I think in view of the fact that the Mellon and the Union Trust did consolidate in about 1946, we should consider the 17.7, the 18.5 figure, with the 13.4 at the end of 1958.

[fol. 3954] As we can observe, in the states where limited area branch banking is prevalent, the largest institution

in Massachusetts at the end of 1958 held 28.7. The following states had lead banks with a greater percentage of resources than Pennsylvania, namely, Michigan, Alabama, Georgia, New Mexico, New York, Louisiana; and, of course, if we consider the states where statewide branch banking is prevalent, we would find situations where the lead bank or group held substantially larger percentages of banking deposits than is the case in states where limited area branch banking is prevalent.

Turning to the percentage of all deposits in the largest five banks or bank group, and again turning our attention to the Pennsylvania situation, back in December, 1920, the largest five banks or bank group held 12.4. On December 31, 1934, 39 per cent, using the parentheses figures, for the reason I mentioned, and December 31, 1940, 42 per cent, and that had dropped as of December 31, 1958, to 37.3.

My conclusions again are the same as I have previously stated. It is most difficult for a large bank or even a group to consistently increase its position, and more often than not it is likely to decrease, and that is revealed in a close [fol. 3955] examination of the schedule in many instances.

Q. Which was the largest bank in Pennsylvania on December 31, 1958?

A. The Mellon.

Q. In Pittsburgh?

A. Yes.

Q. Now, Mr. Jennings, would you turn your attention to D-51, which is a blowup of Table 29 appearing on pages 56 and 57 of D-48, and would you tell us what that is.

A. In commenting on Table 29, Exhibit D-51, which is Table 29 in the F.D.I.C. report, this sets forth the deposits in the largest commercial bank and in the largest five commercial banks in the principal county or counties in 48 metropolitan areas from 1920 to 1934 and including 1958.

Now, in the 31 metropolitan areas in states with limited area branch banking prevalent we find that Birmingham—Jefferson County, Alabama—that a bank there holds the highest percentage of the deposits for the largest bank or bank group. It holds 62.1 as of December 31, 1958. In Birmingham it did hold 64 per cent, but there again we would have to use the parentheses figure 66.9, which I am [fol. 3956] sure represented two institutions that were commonly owned and were subsequently merged.

Going on down the list we find that Philadelphia and Philadelphia County——

[fol. 3957] Q. You know they are coterminous, don't you?

A. Yes.

Q. Philadelphia City and Philadelphia County?

A. This does not include Montgomery, Delaware, or Bucks; just Philadelphia County.

Working backwards for a moment, December 31, 1958, the largest bank held or bank group held 25.1 per cent——

Q. In Philadelphia there is no bank group, is there, Mr. Jennings?

A. There is no bank group, so I am sure that in 1958—I am quite sure that would have represented the First Pennsylvania. It might have been the Philadelphia National, I am not sure.

Q. No, sir.

A. But in any event, the largest bank held 25.1 per cent on December 31, 1958.

On December 31, 1934, the largest bank held 26.7, and, of course, if we go way back to 1920 the lead bank held only 10.3.

But then going on into the percentage of all deposits in the largest five banks or bank groups—and again we do not have a bank group—on December 31, 1920, the leading five held 31.6; on December 31, 1934, the leading five held 65.4; and on December 31, 1958, that had increased to [fol. 3958] 85.1.

As we look at the table, however, we find in many cities—Detroit is one example where the leading five banks held 89.4, and there are other large and important cities where the leading five banks hold a larger proportion or percentage of the total banking deposits in their communities or counties.

Q. In that connection will you look at D-52 and tell us what that is?

A. D-52 has been prepared to make it possible to more easily visualize the situation involving the 31 metropolitan areas in states with limited area branch banking prevalent, which includes, of course, the Philadelphia area. The bars that extend out show the percentage or the concentration held by the largest commercial banks, and I think there is one thing——

Q. Is that so, as far as the Philadelphia area is concerned?

A. No. I was just going to point out that in connection with the Philadelphia area it is not the same as Table 29.

Here, for obvious reasons, the Philadelphia National and the Girard have been included on a pro-forma basis, limited as to the county—I beg your pardon, I am wrong on that—not limited as to Philadelphia County, but including Delaware, Bucks, and Montgomery Counties; so, to that extent [fol. 3959] it is not strictly comparable to the remaining bars, but, if anything, it would show a more adverse position, vis-a-vis the remaining communities where the figures are by counties, single counties; and in the Philadelphia instances we have included the four-county banking area and the figures of the Girard and Philadelphia National.

As you can see, there again, there are a large number of very important areas where the largest bank well exceeds from the standpoint of concentration that which would exist in the Philadelphia area if the proposed merger were to be consummated.

Q. Now, Mr. Jennings, in connection with these charts and graphs that you have been describing, will you turn to page 58 of Exhibit D-48?

A. Yes.

Q. The annual report of the FDIC, and direct your attention to the latter half of the middle paragraph on page 58 and read it, beginning, "In all but——"?

A. "In all but two of the 48 areas the largest bank held a larger proportion of the deposits of all the banks in 1934 than in 1929, and in all but one the proportion held by the largest five banks also increased. But in 29 of the areas, the largest bank in 1958 held a smaller proportion than in [illegible] of the deposits of all the [fol. 3960] banks. Evidently, in the majority of these metropolitan areas, any increased concentration since 1934 consequent upon bank mergers has been more than offset by expansion of the smaller banks of the area."

Q. Does that conform to your opinion?

A. That conforms to my opinion.

Q. Will you go directly across to page 59 and read us the third paragraph on page 59?

A. "The three measures of concentration used above—proportion of deposits held by a specific number or percentage of banks in the nation, the proportion of deposits in each State held by the largest bank and the largest five banks in the State, and the proportion of deposits in the leading counties in each of 48 metropolitan areas held by the largest bank and the largest five banks in the area—all point toward the conclusion that there has been no general increase in bank concentration during the past twenty or twenty-five years. If increasing concentration is taken as evidence of declining competition, the data suggests that the banking system of the nation in the late 1950's, though less competitive than in 1920, was more competitive than in the middle 1930's or early 1940's."

[fol. 3961] Q. Now may I direct your attention to page 99 of D-48 and to pages succeeding that under the heading of "Banking Developments During 1960."

Will you look at D-53, which is a blow-up of Table 38 appearing on page 100 of Exhibit D-48, and tell us what it is?

A. Well, I might say first that in a sense it is a sequel to Table No. 28 that we have already reviewed.

Q. A bring-down?

A. Yes, a bring-down.

Q. To what date?

A. To December 31, 1960.

Q. Yes?

A. From 1958, the end of 1958.

I think the importance of the schedule may be revealed rather quickly in connection with the largest one hundred banks. At the end of 1958, I would like to refer back to Table 28 for just a moment——

Q. Might I direct your attention to page 99 of the text, the next-to-the-last——

A. All right. I think that is easier, yes. On page 99, the second paragraph as to the "Relative Position of Banks" points out:

[fol. 3962] "The largest 100 banks at the end of 1960 held 46 per cent of the deposits of all commercial banks, and constituted about three-fourths of 1 per cent of the number of banks. The largest bank held 4.5 per cent, and the largest ten held 20 per cent, of the deposits of all commercial banks. These various percentages differ only slightly from the corresponding percentages for December 31, 1958."

Q. And you conclude from that what?

A. Well, I conclude that between 1958 and 1960 the situation has changed very little, indeed.

Q. Now will you look at D-54, which is a blow-up of Table 39 appearing on page 101 of D-48, and tell us what that is?

A. This table sets forth the current situation, or as of December 31, 1960, "Commercial Banking Offices and Percentage of Deposits in the Largest Banks in Each State," and I think I might profitably read on page 100 the first paragraph appearing below the chart:

"In most of the States the percentage of the deposits of all commercial banks held by the largest bank, and the percentage held by the largest five banks, are similar to the corresponding percentages on December 31, 1958. In the majority of the States there was a slight decline in these percentages between the two [fol. 3963] dates. In fourteen States there was a slight increase in the percentage of deposits of all commercial banks held by the largest bank, and in twenty States by the largest five banks."

Q. Now will you look at D-55, which is a blow-up of Table 40 appearing on pages 102 and 103 of D-48, and tell us what that is?

A. This sets forth the situation broken down as to states, depending on the branch-banking situation prevalent in the various states. It shows the percentage of deposits in the largest banks in the principal county or counties in 65 metropolitan areas as of June 15, 1960.

I would refer particularly to Philadelphia, Philadelphia County, which appears in the grouping where limited branch banking is permitted; and it shows that the largest

bank on June 15, 1960, held 26.1 per cent of the deposits; the largest three banks held 63.7; and the largest five banks, 83.6.

Now, there is a footnote on the blown-up schedule which reveals that for Philadelphia, and giving effect to the proposed merger, the percentage of deposits of all commercial banks in the largest bank, the largest three banks, and the largest five banks in Philadelphia County would be respectively 37.5 instead of 26.1 as it appears in the tables; 74.6 [fol. 3964] per cent instead of 63.7 as appears in the table; and 89.8 per cent instead of 83.6 per cent.

I might also, on page 100,——

Q. Before you leave that, is that your footnote or did you receive that information from someone else?

A. No, sir, that is not my footnote. I accepted it as having been prepared by Mr. Milton Hoffa of the Girard Trust Company.

Q. May I ask you if the footnote on D-54, the preceding exhibit,——

A. The same would hold true.

Q. Right.

A. I accept it as having been prepared by Mr. Milton Hoffa.

Q. Right.

Now, you were going to read on page 100, were you, of D-48?

A. Yes, at the very bottom of page 100, the relative position of banks in metropolitan areas; and this refers, of course, to Table 40, and it states that:

> "Table 40 pertains to the number of offices and percentages of deposits in the 65 most populous metropolitan areas. It shows the number of commercial banks operating in the principal counties in those [fol. 3965] areas, the number of offices operated, the population per office, and the percentage of all commercial bank deposits held by the largest bank, the largest three banks, and the largest five banks. The metropolitan areas are placed in three groups, as in Table 39, according to the most prevalent type of banking organization, with the areas in each group listed in the order of the percentage of the deposits in the largest bank."

And then beginning on page 104:

"The deposit data in Table 40 are of a type not hitherto available, though for most of the areas in States with limited area branch banking or unit banking prevalent they are roughly comparable with those for earlier dates given on pages 56-57. Lack of strict comparability arises from the fact that the figures for the prior dates are computed from the total deposits of each bank with its head office located in the specified metropolitan area, including in some cases deposits in branches located outside the areas; while the deposits for June 15, 1960, pertain to those held by the banking offices located within the county, therefore excluding any deposits in branches of the same banks outside the specified counties. Though the data [fol. 3966] are not strictly comparable, they support the conclusion that in the majority of the leading metropolitan areas in 1960 there was slightly less concentration in the largest bank and in the largest five banks than in 1958. In only about one-third of the areas for which data are given for both dates was one or the other of these percentages higher in 1960 than in 1958."

Q. Now, Mr. Jennings, will you turn to page 59 of D-48 and read for us the first paragraph on that page under the heading, "Some Observations on Bank Competition"?

A. Yes.

"A general analysis of changes in bank competition during the last several decades is beyond the scope of this report on changes in number of banking offices and the relative position of banks. Nevertheless, the two subjects are related, since data on changes in the number and distribution of banks and branches are essential, though not sufficient, for an appraisal of changes in competition among banks. It has been asserted in recent years that there has been a marked decrease in bank competition as a direct result of the decline in number of banks since 1920. Information [fol. 3967] collected for this report does not support such an assumption."

Q. Will you also be so good as to read us the last paragraph on that page?

A. On page 59?

Q. Page 59.

A. "However, it should be kept in mind that there is no fixed relationship between changes in concentration and changes in competition. Other developments in the economy also have an impact on the degree of competition. To what extent, for example, has the quite remarkable change in transportation and communication facilities since 1921 altered the competitive picture? Is the banking situation in a town which had three banks in 1921 less competitive today with only one bank, but with two banks within easy driving distance? Banks in neighboring towns, in neighboring counties, and in neighboring States often compete with the local bank in today's market, at least for certain types of business, but there is no way of measuring the extent of this competition, nor is it possible to compare the degree of such competition with that which may have existed in 1921."

Q. Now just one more paragraph, being the last paragraph in the section appearing on page 61.

[fol. 3968] A. "No easy or simple answer can be given to the question of the extent to which bank competition has been affected by changes in the number of banks and in the relative position of banks since 1921. If there have been significant changes in the nature of competition among banks, or an appreciable reduction in the intensity of competition among them, the evidence of such changes must come from something other than an examination of changes in the number of banks and in their relative position."

Q. May I ask you, does your opinion conform with what you just read to us?

A. Yes, sir.

Q. Now, if I may direct you to another subject, at my request did you read the transcript of the testimony of Prof. Goodman?

A. I have read it.

Q. Will you listen while I read to you from page 1791 of the transcript? Prof. Goodman there said, in answer to the question, and I will not repeat the question:

> "I feel that the availability of bank credit to the small and intermediate-size business borrowers will be substantially affected as a result of this merger . . . My [fol. 3969] basis for that conclusion rests upon, Number 1, that small and intermediate-sized borrowers are restricted to the local market for their bank-loanable funds. Therefore, any change in the competitive availability of bank funds will be most felt by smaller and intermediate-sized business.
>
> "In this particular situation I examined the banking alternatives in Philadelphia and conclude that a substantial active competitor will be eliminated from the market. When a substantial active competitor of the competitive ability of the Girard Bank is eliminated from the market, there will be a decrease in competitive pressure in the market, and this pressure will most affect those borrowers who are limited to the local market."

May I ask you, Mr. Jennings, do you agree with that conclusion of Prof. Goodman's or with the reason which he assigns for it?

A. I do not agree with it. It is perfectly obvious that one bank disappears from the the competitive scene.

However, there will remain within Philadelphia County itself seventeen banks that, in my opinion, provide adequate alternatives for small and medium-sized business-men. I [fol. 3970] have seen no evidence anywhere that both the large and small banks are other than very competitive in that particular field. All of the banks want the business of small and medium-sized business concerns, as well, obviously, as the business of the larger concerns.

I don't believe it would alter the situation adversely from the standpoint of the small businessman.

Q. How about the intermediate-sized businessman?

A. And I do not believe it will alter it adversely there.

Q. How about the large ones?

A. Well, I would say in the larger field the competition will be increased because then we would have a bank that

would be more competitive against large banks throughout the nation.

Q. In your experience have you noticed any difference in the treatment of small and medium-sized business by a large bank, as contrasted with treatment by small banks?

A. No. Both are very active in that field. I just do not see any difference at all.

Q. Now, then, at page 1795 and 1796 of the transcript Prof. Goodman said:

> "Now, the interesting thing to me, and again a very important point upon which I rely for the anti-competitive effects of this merger, is that having wiped out [fol. 3971] the small banks, in my opinion, we now see an effect where the banks are now going to reduce competition at the high level in addition to reducing competition among the branches which have, to a degree, attempted to replace some of the competitive opportunities that were afforded by unit banks.
>
> "We see that if this merger is to go through, we see the beginning of the reduction in competition at the high level, at the level of banks who now can concentrate on the very large businesses, because they would be reduced from three to two."

Do you agree with Prof. Goodman's conclusion and opinion?

A. No.

Q. Or the reason therefor?

A. No, I do not.

Q. Why?

A. Well, to me, it is very obvious that at the higher level, if the proposed merger is consummated, the competition will definitely be increased locally and nationally; and that the other large banks in Philadelphia will very definitely be able to compete.

In addition, it is inevitable in mergers of this type that [fol. 3972] a certain percentage of the business of the merging institutions is acquired by other large local banks and small local banks; so I would foresee enhanced competition at all levels.

Q. Again, on page 1824 of the transcript Prof. Goodman, in speaking about these two merging banks, said:

"The disappearance of one of these, one I believe which controls approximately 20 per cent of all banking resources in the area, the other which controls approximately 17 per cent of all banking resources in the area, will materially affect the relative ability of a small business to secure funds, inasmuch as the disappearance of a very powerful, vigorous competitor, with the substantial resources of one of these banks, would affect him more substantially than the disappearance of another."

Do you agree with that conclusion and the reasons?

A. No, I do not. I do not agree with it.

I am firmly of the opinion, based on my experience, that there would be an adequate number of banks in this county and the four-county area actively competing for small-business loans and deposits and medium-sized loans and [fol. 3973] deposits.

I just can not see that the small businessman or the medium-sized businessman stands to be hurt one iota.

Q. In your opinion, how many choices should a small or medium-sized borrower have?

A. Well, of course, it would be easy to give a large number, but in my experience, in the great majority of instances, if two banks turn a man down on a loan after having carefully reviewed it—and, mind you, banks wish to make these loans—it is unlikely that it is a bankable loan.

However, to be on the safe side I would say that three choices would be adequate. Of course, in Philadelphia and in this area we have a far greater number than that.

Q. Now, again, Mr. Jennings, on page 2018 of the transcript Prof. Goodman said:

"It is therefore my conclusion that the consolidation of these two banks will materially affect their ability to be able to affect the price and the supply and the allocation of available bank credit in this area."

Do you agree with that?

A. I do not.

Q. Why not?

[fol. 3974] A. Now, as I understand it, he has stated that

the merged bank would be in a position to control credit, control prices.

Q. To affect the price and the supply and the allocation.

A. Affect the supply?

Q. And the allocation of available bank credit in this area.

A. Well, I just wholly disagree with it. It is not possible. I can not imagine any experienced banker agreeing with such a statement. There is simply too much credit, I mean too much competition available in this upper level and at the lower level to prevent any such thing occurring.

If a banker were to attempt to control credit in an area because he had 35 per cent, let us say, of the deposits or the capital structure, in my opinion within a year's time he would have lost a substantial amount of his business. You just can't operate that way in the banking field, so I think he is wrong.

Q. Is there anything in any of the exhibits which we have been discussing this morning which indicates that this is not the situation?

A. Well, I think it has been obvious through most of the schedules we have reviewed that the large banks in communities all over the country have to do their level best to [fol. 3975] hold even as against their smaller competitors; and more often than not, as I observed, they lose ground to their smaller competitors over a period of time, so I think that that does tie right into it.

Q. And in any of the communities where the largest bank had a concentration higher than these merged banks would have, does this dire situation that Prof. Goodman envisages obtain?

A. No. It does not exist, in my opinion, in any city in the country.

The only exception I might make (I don't know of any such situation), it might exist in a few of the 7,000-odd communities served by a single bank, the community being relatively remote. I don't know of any such situations, but conceivably it could grow out of a situation like that, but that would be a remote, small community served by one bank.

By the Court:

Q. Which would have a complete monopoly; is that it?
A. Yes.

The Court: All right. Ten-minute recess.

(A recess was had)

[fol. 3976] Q. Mr. Jennings, again on page 2021 of the transcript Professor Goodman stated:

> "If I were the president of this merged bank and I wished to exert my will on the other borrowers in this area, I would have to, as I pointed out yesterday, take into consideration the market in which I operate, the available competition, the available effective competition which I will face, and the relative ability of the customers to pay me for my merchandise, so that I can maximize my return relative to the amount of bank resources that I have available to commit to this area.
>
> "I know that I would have 35—what is it, 35 to 40 per cent—I will get the exact figure—I would have 35 per cent of the total capital of the area, total bank available capital in the area, and I would have 36 per cent of the total deposits, 32 per cent of the IPC deposits.
>
> "This to me indicates that I have a substantial control to the extent that, if people in this area wished to continue to borrow the same amount of capital that they have been borrowing before, they must come to [fol. 3977] me for at least a third of the total deposits, and they must come to me because I control a third or more of the total bank capital."

Do you agree with that opinion?

A. I do not. Obviously anyone who would make such a statement has never been a banker. A banker's commodity, in effect, is represented by his deposits, and he doesn't own his deposits. He owes his deposits, and any individual who attempted to run a bank on the basis that he was a czar because he had 35 or 40 per cent, or whatever the amount might be, of the banking business in the community and could impose his will on borrowers, depositors, customers, generally would find that he would, in effect, be liquidating

his bank. He just could not operate a bank successfully on that basis using such policies or with that attitude. It would be impossible.

Q. To your knowledge or from your experience in any of the cities or areas which appeared in the exhibits discussed this morning, where the largest bank has a concentration of assets or deposits which are in excess of what this merged bank will have, is such control being exercised by any such bank?

A. I have never seen control of that type exercised in [fol. 3978] banking.

Q. And as I understand your opinion, you don't think it could be?

A. I do not think it could be, with the one exception that I mentioned just before we recessed, a remote, small bank, the only bank in the community.

Q. And what is the thrust of that word "remote"?

A. Well, in the West and Southwest we have some areas where a bank will serve a community, and I suppose it might be 50, 60, or 70 miles to the next bank, but let me point out this: Such situations are very rare, but I have had occasion during the period I was with the office of the Comptroller of the Currency to survey and examine new charter applications, where the new bank was going into a one-bank community remote from other banks, and I have found that in those situations, despite the remoteness, that if the bank has not been serving the local community correctly, that a rather amazing amount of banking business is done elsewhere by mail. The public will stand about so much, and even though it is most inconvenient, such as the situation I am mentioning, they will handle their banking business elsewhere.

Q. Again on Page 2027 of the transcript—and this is the last one I will direct to you—Professor Goodman said;

[fol. 3979] "A. Banks are in a better competitive position than are manufacturing companies to control prices.

"Q. Prices of what?

"A. Prices of the goods that they make available.

"Q. What are they?

"A. Primarily money and services . . ."

Do you agree with that?

A. I do not. As I mentioned before, every bank owes all of its deposits. A bank may not operate without deposits. I think that a bank is in a much more competitive environment and that it is certainly not in a better position than a manufacturing concern to impose its will pricewise, creditwise, or in any other way on the banking community.

Q. Is it in as good a position?

A. No, I really don't think so. I think a business concern that has 35 per cent of the market or even 20 per cent of the market—we are talking nationally—is in a much better position than a bank—of course, we have no banks with 20 or 30 per cent of the national market—but it is in a much [fol. 3980] better position than a bank with, let us say, 35 or 40 or 50 per cent of the banking resources of a single community or area.

Q. Now, Mr. Jennings, in your opinion, if this merger becomes effective, will existing and potential competition generally in commercial banking in the Philadelphia area be substantially and unreasonably lessened?

A. No, I feel it will be increased.

Q. Will concentration in commercial banking in the Philadelphia area be substantially and unreasonably increased?

A. Oh, no, no, it will not.

Q. Will existing and potential competition in the commerce and industry served by commercial banks in the Philadelphia area be substantially and unreasonably lessened?

A. Well, I personally think that that is absurd. Naturally, the competition between competing commercial and industrial firms probably will not be affected a great deal one way or another. They are highly competitive now. They are going to continue to be competitive, and I really can't see how anyone could visualize a change in that situation by virtue of the proposed merger. I think it would remain as it is, highly competitive.

[fol. 3981] Q. In your opinion, is it in the public interest that this merger become effective?

A. Yes, it is.

Mr. Littleton: Mr. Price.

By Mr. Price:

Q. Mr. Jennings, will you turn to pages 52 and 53 of this Exhibit D-48, and I call your attention to the statement appearing in the second paragraph on page 52, that in the United States there is a tendency for the greatest concentration to occur in the states with statewide branch banking; and on page 53 in the first full paragraph referring to Table 28, it says that they show much more concentration in some of the states in which unit banking is predominant throughout the state.

Now, whether the concentration is due to statewide branch banking or unit banking, where the greatest concentration exists, have you in your experience found that there has been any adverse effect on the ability of the businessman, whether large or small, to be adequately served?

A. No, I have not. Of course, in the statewide branch bank states, that would include all of the states on the [fol. 3982] west coast, some few states in the East, there are states that are served by a relatively small number of banks from the standpoint of, let us say, eastern standards or standards where statewide branch banking is not permitted, but I have never seen an instance in those areas where business and industry were not receiving adequately competitive banking treatment.

Q. And in such areas of greatest concentration have you observed whether or not the smaller bank or the smallest banks have been able to compete and to grow adequately and freely without restraints exercised by the larger banks?

A. Yes, I have. I have observed it on many, many, many occasions, that aggressive and progressive well run small institutions can compete and compete effectively against very large institutions.

Q. Were you in court the other day when Mr. Mason was on the stand and was asked by Mr. Reycraft the hypothetical question based upon the assumption that one bank would have 80 per cent of the resources of a community and that

ten other banks would each have 2 per cent of the resources?

A. Yes, I was in court.

Q. I assume that may be considered a hypothetical [fol. 3983] situation.

A. Yes, it is hypothetical. I don't believe I can remember ever dealing or knowing about a community that was served in that way, 80 per cent of the resources held by one bank and ten banks holding 2 per cent each. That, I am quite sure, does not exist in actuality.

Q. If that situation were artificially created in some way, what in your opinion would be the result?

A. Well, I think the result would be this, that if all ten banks holding 2 per cent each of the banking resources were managed by people of equal ability and capacity, that as the years went on they would grow and increase their percentage of the banking business in that community and that the bank with 80 per cent of the banking resources would find itself steadily, year after year, holding a lesser percentage, because it is virtually an impossibility under those circumstances for a bank to get 80 per cent of all the new business and retain 80 per cent against ten aggressive, effective, progressive competitors. It just isn't being done in the banking business.

Q. And then if that 80 per cent bank tried to maximize its profits in the manner suggested by Professor Goodman, [fol. 3984] it would lose its business more rapidly, wouldn't it?

A. I would say that it very definitely would go down from 80 per cent to a substantially lower percentage much more quickly.

Mr. Price: That is all I have.

Mr. Littleton: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Jennings, what is the largest bank in Texas?

A. Republic National Bank of Dallas.

Q. And that is the bank of which you are senior vice-president at this time?

A. Yes, it is.

Q. What type of banking system does Texas have?

A. It doesn't permit branch banking in any way, shape, or form, and holding company banking is not permitted, so it is strictly a unit bank system.

Q. Has your bank been involved in any mergers?

A. The last one was in 1955, as I remember it. I was not with the bank at that time. It acquired a relatively small institution having total resources of approximately $40 million.

[fol. 3985] Q. Was there any other prior to that that you recall?

A. Going over the history of the bank, yes, but, for instance, back in 1929 there were some mergers—1930. It has had a certain number of mergers, but let me say that during the past ten years or even 15 years I believe the merger I referred to in 1955 was the only one of any consequence.

Q. So that its present asset position and its present lending limit substantially all is attributable to what we have referred to as natural growth?

A. Natural growth, that is correct.

Q. And the present lending limit of your bank is somewhat in excess of $10 million?

A. $10,500,000.

Q. And it has been possible to achieve this through natural growth; is that right?

A. It has, and I might add, if I may, that the bank commenced business in 1920. It was competing against an old, fine, well established institution, the First National Bank of Dallas. It still is a fine institution and a strong one. Yet the Republic National Bank of Dallas, primarily by virtue of its vigor, its agressiveness, its progressive policies, gradually moved on up, almost wholly by natural growth, [fol. 3986] reached and passed the old established institution of the First National Bank of Dallas, which shows that a small bank can compete against a large bank, because when it was chartered back in 1920 the First National Bank of Dallas was the outstanding financial institution in the Southwest.

Q. And your bank grew to be the largest bank in the State of Texas by natural growth and as a result of the

quality of its management and the quality of its policies; is that right?

A. Plus a few small mergers.

Q. Relatively minor?

A. Relatively minor mergers. Not only the largest in Texas, but I might add, the largest south of the Mason-Dixon Line.

Q. Mr. Jennings, I believe you testified that you have appeared here under subpoena; is that correct?

A. Pardon?

Q. You appeared here under subpoena?

A. Yes, I did.

Q. How many days have you attended the trial of this case?

A. This will be the fifth day. I attended two days when [fol. 3987] the case opened, and then, of course, I have been here Tuesday, Wednesday, and Thursday of this week.

Q. You went back to Texas and then returned?

A. Oh, yes.

Q. From some of your direct testimony I got the impression that you felt that you would be compelled to express your opinion on this case by subpoena.

A. Well, in considering the matter in my bank, the president of the bank felt that if I were to appear as a witness it should be on the basis of an enforceable subpoena.

Q. But you are not under the impression, are you, or haven't been, that you could be compelled to give your opinion?

A. Well, if I appear as a witness, I am going to give my considered opinion on questions that are asked me, to the best of my ability.

Q. You are doing so freely, and you don't feel that you are under any compulsion of any kind?

A. Oh, absolutely not.

Q. You have had an opportunity to study a number of the facts relating to this case; isn't that correct?

A. That is correct, I have

Q. You are familiar with the Philadelphia National Bank [fol. 3988] and the Girard Trust Corn Exchange Bank generally, are you not?

A. Yes, although, of course, I am more familiar, I suppose, with the Philadelphia National than with the Girard,

but I have reviewed the figures. I haven't attempted to memorize many of them, but I have reviewed the basic application, and I believe all of the exhibits.

Q. Do you have an opinion as to the financial soundness of the Philadelphia National Bank?

A. Yes, I have. I would regard it as being a eminently sound institution.

Q. Would you place in the top rank among financial institutions?

A. Yes, I would.

Q. Would you place it in the same rank with reference to the quality of its management?

A. The quality of its management is superb.

Q. And with respect to its ability to serve the community?

A. You are referring to simply the four-county area?

Q. Its ability to serve the area which it now serves.

A. I do not think it is in a position to adequately serve all the business that the Philadelphia National should be in a position to serve.

[fol. 3989] Q. Do you have an opinion with reference to the customers who require $8 million of loans at one time?

A. Do I have personal knowledge?

Q. No. Do you have an opinion as to whether the Philadelphia National Bank is able to give service which would be in the top rank for those customers who require $8 million of loans?

A. Oh, there is no question about it being able to give service to large borrowers. The only difficulty is that it has a legal lending limit in relation to the city, area, and nation that is inadequate. There isn't any question about its ability to serve up to $8 million. There would be no question about its ability to serve or service substantially larger loans.

Q. Would you have the same opinion as to the Girard with reference to its financial soundness?

A. Yes, I would. I am not as intimately familiar with the Girard as the Philadelphia National, but I would state that that would be my opinion.

Q. And also its ability to serve its customers up to its legal lending limit?

A. Yes, up to its legal lending limit or to a much higher legal lending limit.

[fol. 3990] 'Q. But up to its legal lending limit you would have no doubt that it is in the top rank among financial institutions with reference to its ability to serve its customers?

A. No, it is not in the top rank.

Q. With reference to the quality of its services?

A. No, I don't mean that at all. Let me make it clear that both of the institutions, in my opinion, have outstanding managements. They can handle any type of banking business that any other large institution in this country can deal with, but they are hampered, both of them, by having a legal lending limit that is too small for the needs of their community and the large concerns they must deal with around the country.

Q. Do you have any specific examples in mind?

A. No, only based on my long association with banking and my knowledge, general knowledge, that in a city such as Philadelphia it is necessary to have a larger legal lending limit than $8 million to effectively compete for national business throughout the United States. I know that from my own knowledge in connection with the Republic National Bank of Dallas, so I can say that I know it is so, but if you ask me to name ABC Company or DEF Company, I am not [fol. 3991] able to, but I know that a larger lending limit would attract business not now attracted to the two institutions, because the enlarged institution would have the ability, the capacity, to meet the larger needs that occasionally arise in the fourth largest city in the country.

Q. How high a lending limit do you think the bank ought to have?

A. Well, let me say this, that I think the merged institution, with a $15 million lending limit, is in a greatly improved position to compete. I would be quite happy if it were somewhat larger, but I think $15 million will serve at least to substantially correct the present glaring deficiency.

Q. Do you think $15 million is about enough?

A. That would depend on future requirements. You never can say flatly as of one given moment that a figure is all right for next year or five years from now, but I would say that the merged institution could very comfortably proceed on the basis that they were in a greatly improved

position. If subsequent events were to prove that they were wrong and that they needed a greater lending limit, they would have to determine what might be done about it.

[fol. 3992] Q. There are a large number of companies whose needs cannot be fully met by a bank with a $15 million lending limit; isn't that correct?

A. That is correct.

Q. Do you think that the bank ought to be in a position to serve these companies as well?

A. There comes a point where the rule of reason has to come into play. There are national concerns in this country whose borrowing needs far exceed the top legal lending limit of any bank in the United States; so I think that all we can hope to do is to try to approach it within reason to have a legal lending limit that is not glaringly below the banks that the Philadelphia institutions compete against in so many areas of the country, including cities with smaller populations, less important industrial communities than Philadelphia.

Q. Do you have an opinion as to the point at which this rule of reason comes into play?

A. I would be happy to say that for the present the rule of reason would stand at $15 million.

Q. You think $15 million is about right?

A. I would say that and for obvious reasons. If the [fol. 3993] merger were going to produce $14 million, I would be happy with that. I would be happier if it were going to produce $16 million or $17 million, but there is a rule of reason that has to be applied, of course.

Q. You stated that you consider a $8 million lending limit to be glaringly inadequate.

A. I do in Philadelphia, yes.

Q. Can you tell me what your basis is for that conclusion.

A. Well, possibly I can outline it a little more clearly in this way: I saw some figures the other day put out, I believe, by the Department of Commerce—maybe it was the Small Business Administration—and it pointed out that there were 4,700,000 business entities in this——

Q. I don't like to interrupt, but can you identify that source?

A. I can when I return to Dallas. I have it on my desk.

Q. Go ahead.

A. There are 4,700,000 business entities in this country. 75 per cent of them employ fewer than four people. Only 1 per cent, or about 46,000 or 47,000, employ 100 or more [fol. 3994] people, and they account for about 75 per cent of the employment in this country. So we have a business setup in this country where we have 45,000 to 50,000, let us say, of larger business concerns, and then we have this large group of smaller business concerns, but that large group, the 45,000 to 50,000, become very large at the top, and they are just as important, no more important, in my view, than this large group of small business entities; and it is necessary that the large banks of the country be able in their own areas, to the extent of being reasonable, look after their borrowing requirements. After all, a large institution in Philadelphia or Dallas or Chicago or Detroit has the responsibility first, I say, to the local community, the local area, its state, but it also has a responsibility to take care of the financing needs of national concerns, including those national concerns that may be in its own area, and it is my view that Philadelphia, as the fourth largest city in the country, a city that is most important industrially and commercially, needs a bank with a larger lending limit than $8 million in order to compete.

I am in Dallas. I am in a city, the fourteenth largest in the country. We have a lending limit of 10 million 5. When [fol. 3995] we are asked by the treasurers of large corporations to give them a line, lots of times our lines will be as much or more than the line given by a Philadelphia bank, and it could be that the concern would be more within the orbit of Philadelphia than Dallas. I don't think that is right. Certainly I wouldn't think it right in Dallas if we were asked to make a loan to one of our largest and finest corporations, to have to say "No, we don't have 10½ million; we have 3 million. We are way behind the parade, and you will have to go out and arrange for a group of banks to participate with us."

It makes a great deal of difference. Banks have dignity, along with everything else, and they don't like to be well down the line in relation to their own community, and it is important population-wise and industrially.

Q. Do you consider your own bank's lending limit of 10 million 5 to be glaringly inadequate?

A. No, not in Dallas. I would like to have it higher. We have to turn down loans now and then and participate loans out that go beyond that. Not in large number, I assure you, [fol. 3996] but we have some limit loans. I would like to see it a little bit larger, and the day will come when it will be larger, but we get along quite well with it, but remember, Dallas is not Philadelphia. Our population for the whole county is a little under a million. In your immediate four-county area you have 3½ million people. You have greater industry.

But we will catch up.

Q. Does your bank propose to catch up by merger?

A. I have no comment on that. We are not considering any at the moment.

Q. I don't believe I understand yet how you reach the conclusion that $8 million is glaringly inadequate and $15 million is adequate. Let me ask you, sir: Have you examined any particular statistics which would support this conclusion or are there any particular companies you have in mind to support this conclusion?

A. No. I would say that my conclusion on that score is based on the size of some of the very large corporations in this area, and I know very well they will borrow more than $8 million. They have lines of credit available to them far exceeding $8 million, and if I were a Philadelphia banker, I would look upon $8 million as glaringly inadequate as a legal lending limit. I really would. It is just not [fol. 3997] adequate.

You are confronted with banks in Boston, in New York, in Cleveland, in Pittsburgh, in San Francisco, in Dallas, that have larger lending limits and it just isn't the thing to do. It isn't good for the community. There isn't any doubt, Mr. Reycraft, that a larger lending limit will have a beneficial effect on banking and commerce in this city. It is difficult, possibly, to explain it, but it has a value that goes beyond the number of times it is used. A large corporation just feels more comfortable dealing with a bank that has a lending limit that is more nearly adequate or adequate to look after its needs.

Q. Do you have any particular company in mind for whom the $8 million lending limit is——

A. No, I don't believe I care to mention companies.

Q. May I finish my question?

A. Oh, I am sorry.

Q. Do you have in mind any particular company for whom the $8 million lending limit is glaringly inadequate, which does not require more than $15 million?

A. No, I don't know offhand.

Q. Don't most of these companies you are talking about require more than $15 million?

[fol. 3998] A. Some of them would, but the thing is, and I imagine it is so—possibly I shouldn't say it when I don't specifically know it, but I would believe that there might be companies in this area that don't do very much business with Philadelphia banks, and they go to New York, in all probability, because of its proximity, because Philadelphia has a $8 million lending limit. They think it is not quite in the big leagues, and they better go up there.

Now, some of those companies, not all, I think would take a different view of the situation with a larger bank and a $15 million lending limit. I just think that there isn't any question that they would take a different view, because they would feel more comfortable.

Q. Can you name one company for which the $8 million lending limit is inadequate, for which the $15 million lending limit would be adequate?

A. No, I am not in a position to name names.

Q. Well, you don't know?

A. I would say that that is correct, as to names.

Q. So that your testimony generally is based on your assumption that larger lending limits in general are a [fol. 3999] desirable thing; is that right?

A. Yes, that is correct, in view of the importance of Philadelphia.

Q. Yes, but you wouldn't know, for example, what number of the existing or potential customers of Philadelphia National Bank might require a lending limit in excess of $8 million?

A. No, I would not know.

Q. For example, you wouldn't know whether it was 1 per cent or perhaps less?

A. The 1 per cent, you mean, as to all borrowers?

Q. By number.

A. By number. Well, of course, it would be less than 1 per cent of all borrowers by number. If you include consumer credit loans and all the rest, it would be a very small percentage. It always is.

Q. Who would require more than $8 million?

A. Yes, it is less than 1 per cent, but it is a very important area that has to be taken care of, very important to the city, very important to the banking community.

Q. Do you know what percentage of the financial needs of large companies are supplied by commercial banks?

A. What percentage of the financial needs of large com-
[fol. 4000] panies?

Q. Yes.

A. Are supplied by banks?

Q. Yes.

A. No, I do not know the percentage.

Q. Do you know of any occasion where any large business of the type you had in mind has been unable to get its financial requirements by reason of the inadequacy of lending limits of any commercial bank?

A. In the Philadelphia area?

Q. Anywhere.

A. Anywhere? Well, let me answer it this way: I know of many situations where the lending requirements are not met, cannot be met, because of legal lending limits, and it necessitates the borrower going to various other banks and arranging either for one loan at a much larger bank or for participation through the local bank and participating out to other banks. I know, of course, of many situations like that. They are very common among the very large corporations.

Q. You testified that far less than 1 per cent of the borrowers by number would require a lending limit in excess of $8 million. Do you have an opinion as to the percentage
[fol. 4001] which would require between $8 million and $15 million?

A. The exact percentage?

Q. No, sir, I will take an opinion.

A. Oh, no. I don't have any idea of the exact percentage. To begin with, I suppose this bank may have 40 or 50 thousand notes in its consumer loan department, separate borrowers, and you get into a very large figure and work

it down to an infinitesimal percentage. I think that when we consider this field, we had better forget percentages and say, well, how many borrowers might there be in a community such as this who would require borrowings in excess of $8 million?

I don't know the answer to that—possibly the local bankers do—but that number, though small, is highly important to the community.

Q. Do you know, Mr. Jennings, the number of borrowers from the Philadelphia National Bank who had average loans in excess of $5 million in 1960

A. I saw a schedule, I believe, that was introduced—maybe I am wrong; I guess I am wrong. No, I wouldn't know. Unless I have seen it in the exhibits that have been presented here, I would not know the answer.

[fol. 4002] Q. Your only information would come from the exhibits which are in evidence in this case?

A. That is correct. I have no other information.

Q. Is D-26 one of the exhibits that you might have examined?

A. Yes. I reviewed that.

The Court: Being what exhibit?

Mr. Reycraft: D-26, Your Honor.

The Court: D-2?

Mr. Reycraft: D-26.

The Court: D-26 revised.

Mr. Littleton: May we have the question, please?

(The testimony was repeated by the reporter as follows:

"Q. Do you know, Mr. Jennings, the number of borrowers from the Philadelphia National Bank who had average loans in excess of $5 million in 1960?

"A. I saw a schedule, I believe, that was introduced—maybe I am wrong; I guess I am wrong. No, I wouldn't know. Unless I have seen it in the exhibits that have been presented here, I would not know the answer.")

By Mr. Reycraft:

Q. I might say to you, sir, that D-26 does not purport [fol. 4003] to show all loans of $5 million or more, but it

does show the loans for those customers with credit lines of $8 million, the top credit lines.

A. Yes.

Q. All right.

Mr. Littleton: Yes.

The Witness: It shows, as I understand it, 27 customers having lines aggregating $234 million and those customers had average deposits of $103,500,000. They had average outstanding loans during 1960 of $51,798,000; and they had an excess of deposits over loans, on an average basis, of about $51 million.

By Mr. Reycraft:

Q. Will you answer my question with reference to the average loans?

A. (No response.)

Q. Of these top-line customers, how many on that page do you see that had average loans of $5 million or more?

Mr. Littleton: Do you mean the average for the year, Mr. Reycraft?

Mr. Reycraft: The average for 1960.

The Witness: Well, I would say three—no, at the very bottom—I would say three.

[fol. 4004] By Mr. Reycraft:

Q. And of those three two are situations where they are secured by commercial paper; is that right?

A. Yes.

Q. Will you agree that as a general proposition the customers who receive the highest lending limit of the bank, the highest line of credit, are the ones who require it?

A. Who have acquired——

Q. Who require it.

A. Well, certainly, they are among those requiring it. There may be others who have gone elsewhere because of the inadequacy of the $8-million lending limit. This merely——

Q. You don't——

A. This merely reveals the situation as it is in the bank as of one given moment, one given date.

I don't believe you can draw very many conclusions from that as to the number of other concerns or individuals who might have need for or who actually are borrowing amounts in excess of $8 million from other sources.

Q. I point out to you first these are average loans for the year.

A. Yes.

Q. You have indicated it is as of one particular date. [fol. 4005] A. Yes, that is the average; so there would be times when they would be much higher and there would be times when they would be lower, I would guess.

Q. Now once again you don't know of any particular customer which went elsewhere because of the $8-million lending limit?

A. I do not.

Q. Now, you testified also, Mr. Jennings, with reference to D-47. Do you have that exhibit?

A. They are not in very good order here; I will take a moment.

Can I get some help? D-47, will you bring it up, please? That is correct. I testified.

Q. And you expressed the opinion, as I remember (and I refer to page 3324 of the transcript)——

Do you have D-46 there with you also?

A. I have D-46 and D-47 with me.

Q. Yes, sir.

Now, by reference to those exhibits, I believe you testified that at the time these studies were made the people residing in all of these communities were receiving the benefit of adequate banking competition; is that right?

A. I may have been as all-inclusive as that. I thought I [fol. 4006] indicated that there might be a one-bank community here or there that I would exclude, but ——

Q. With that exception——

A. But with that exception I would say that in my judgment they were receiving the benefits of adequate banking competition.

Q. And that is your opinion now?

A. And that would be my opinion now.

Q. Now, you include in that category Gary, Indiana, do you not?

A. I do.

Q. What percentage of the assets of all commercial banks in Gary, Indiana, is held by the largest commercial bank?

A. As of 1956, 88.4

Q. Do you know what has happened to that percentage between then and 1960?

A. I have quickly looked at that one just to refresh my memory. Actually, there was and is a savings bank there that did provide competition in the sense that savings banks provide competition for deposits, mortgage loans, possibly modernization loans.

Actually, a $40-million bank in a near-by, in a suburb really, has established a branch there rather recently, and, as I remember it, the concentration has gone down into [fol. 4007] the area of around 70 per cent.

Q. Are you talking now about commercial banks?

A. I imagine that I have included the savings banks in my calculations, but the branch of the bank that has gone in there is, in my opinion, doing a good job.

Gary is an unusual situation. It's not very large geographically and there are a lot of banks around the edge and people go in there and work in the steel mills and they live out in the suburban areas. There are a number of banks there that they have had access to.

I have felt that the people in Gary enjoy reasonably good competitive banking.

Q. In 1956, which is the time that the figures in D-47 are effective, you were in the Comptroller's Office; is that right?

A. That is correct.

Q. And you were familiar with banking competition in this particular area by reason of your affiliation?

A. Yes. I don't believe we were dealing with a per cent on a merger. We were merely supervising a very large national bank in a community and we knew generally the situation, both as to its condition and also the status of banks in the near-by area.

Q. And it was your opinion at that time that the people [fol. 4008] of that community were receiving adequate banking competition; is that correct?

A. I feel—yes, I felt at the time that they probably were because of the unusual situation of so many people com-

muting in to work and banks in the general area near by; and certainly I wouldn't look upon it in any sense as a monopoly.

Q. You don't think that is a monopoly?

A. There were adequate choices available in Gary.

Q. Do you think that anything short of a hundred per cent would be a monopoly?

A. Oh, it's most difficult to try to fix a percentage as being determining or indicative that a monopoly exists. It is quite obvious that you reach a point or you reach a set of conditions where it is not in the public interest; but you just don't do it by percentage only.

You have got to view the whole situation. The nearest that you can come to it is in a remote town with one bank.

Q. So that if you did have a hundred per cent in Gary, Indiana, that would not necessarily, standing alone, indicate an inadequate competitive situation?

A. I would say this, that if it held a hundred per cent and there were very near-by institutions that were competing effectively, I don't say that it would be wise, that [fol. 4009] it would be best, but I would say that it is a far cry from monopoly.

Q. You would say it is a far cry from monopoly?

A. Yes, if you have available to the people who are working there; but, of course, those things never really arise because when a vacuum is created by an institution that has too large a percentage of business, competitors flow in just like water seeking its own level.

In Gary I would say that today the percentage is not as large, and it just serves to prove what I said earlier.

Q. Now, you don't have those figures?

A. No, I don't.

Q. You don't know how many competitors——

A. No. I should have, because I wondered if you wouldn't question me on Gary, but I took a very quick look at the bankers' directory and I should have worked them out quickly, but I have not.

Q. You don't know how many competitors have flowed into that area?

A. No, I do not.

Mr. Littleton: Mr. Reycraft, could we ask the witness to look at D-55?

Mr. Reycraft: Certainly.

Mr. Littleton: D-55.

[fol. 4010] The Witness: D-55?

Mr. Littleton: Table 40, "Commercial Banking Offices and Percentage of Deposits in the Largest Banks in the Principal County (or Counties) in 65 Metropolitan Areas, June 15, 1960."

See if you find Gary on that.

The Witness: Oh, yes. This takes into consideration the full county, Lake County.

By Mr. Reycraft:

Q. That is not Gary?

A. That takes in Lake County.

Q. Not Gary.

A. Not Gary, but Lake County is the area I was thinking of. I couldn't remember the name of the county, and the largest five have 77.8 per cent and the largest bank 35.3 per cent.

Q. Do you know what the comparable figures were for 1956?

A. No, I do not, but I did not make a special study of Gary, Mr. Reycraft, before appearing here.

Q. No, but——

A. At the time we made up the study, no doubt I did look into it more carefully and my memory was a little faulty as to the number of banks in Lake County, but it appears here.

Q. The figure in D-55 is not comparable to the figure in D-47?

[fol. 4011] A. No, no. It is not, but it does show the competitive area far more thoroughly than Gary, Indiana, 88.4 per cent.

Q. It shows a larger area?

A. It shows a larger area and where the people have other choices.

Q. With reference to Dearborn, Michigan, is it your opinion that the people there are receiving the benefits of adequate banking competition?

A. I should say as much.

Of course, as you know, it's right in Detroit and owing

to the unusual branch-banking statutes one Detroit bank had a monopoly in Dearborn for years.

Under the Michigan branch-banking statutes, if a bank in Detroit went outside of Detroit and established a branch in another municipality such as Dearborn, when it got its first branch that excluded all other banks from going into that municipality, other than through the creation of a new unit bank.

So, for years this one bank received branch after branch after branch to serve Dearborn as Dearborn's needs increased and it was legally impossible to provide competition until a unit bank was established.

But with all of the banks and the branch offices in Detroit proper, mileage-wise it was almost a short walk to [fol. 4012] competition.

Dearborn looks bad on the face of it, but actually is a highly competitive banking area.

Q. My recollection is that it is about 15 miles from downtown Detroit to Dearborn; is that right?

A. Yes, that may be true, but you will find plenty of banking offices that are bordering right on Dearborn. You don't have to go to downtown Detroit to find them.

Q. Do you share the opinion that the service area of a branch is about 1 mile or 2 miles?

A. Under certain circumstances, that would be true.

Q. In other words, it is a local——

A. Maybe under many circumstances it would be true, but it is impossible to flatly generalize in that field.

Q. But for whatever reason you have referred to the state laws in Michigan, it is your opinion that as of June 30, 1956, the date of these figures and when you were in the Comptroller's Office, the public in Dearborn, Michigan, was receiving the benefit of adequate banking competition?

A. That is correct; and I might point out that the main factor in Dearborn is the Ford Motor Company and they have big banks from all over the country after their business 24 hours a day.

Q. And there are other people in that community, too? [fol. 4013] A. There are, but it's the Ford Motor Company basically.

Q. And you can't distinguish, can you, with reference to Niagara Falls, where the percentage is 79.2 per cent?

A. There are no national banks in Niagara Falls. I am not quite as familiar with it, but a bank that is a part of the Marine Midland Group, I am sure, is the major bank in Niagara Falls.

However, there is other banking competition there, and I believe that without any doubt the public is being well served competitively speaking by the banks in Niagara Falls.

Q. Do you know how many alternative choices a borrower in Niagara Falls has within Niagara Falls?

A. We will find out how many banks Niagara Falls has. That is the only way I can answer that question.

Well, at the end of 1956 there were three banks in Niagara Falls, so I would say at that time he had, depending on the type of loan he wanted, if it were strictly a bank-type loan, three choices; but depending on various other circumstances with which I am sure we are all familiar, he might have 15 or 20 commercial-finance companies; he would have to go a very short distance to Tonawanda, New York, to find a couple of additional choices.

Q. But in your opinion those three alternative choices, [fol. 4014] and with one bank having 79.2 per cent, provide adequate banking competition for Niagara Falls?

A. I say "yes" for this reason—I have never heard of a group of people in Niagara Falls banding together to get a charter for a new bank; and it is almost invariably true in a situation where the public is not being properly treated, adequately treated banking-wise, that it will give rise to the establishment of an additional institution or seeking banks near by to bring in branch offices.

I honestly believe—I know Niagara Falls very well—that the public there is well served.

Q. Just to go back to Gary for a moment, since we are on D-46, D-46 indicates that the two largest banks in Gary in 1956 had one hundred per cent of the banking assets.

Is that in accord with your recollection?

A. In 1946?

Q. 1956. They had 99.1 in 1946.

A. The two largest banks had one hundred per cent?

Q. In 1956, yes.

A. In 1956? Well, that would, of course, exclude, I am

quite sure, the mutual-savings bank and would exclude all of the banks in Lake County that converges very closely around that area.

Q. So that within Gary there were two choices?

[fol. 4015] A. For a strictly bank-type loan, let's say two choices within Gary, but alternate choices very close by.

Q. Now, if I were to ask you, sir, with reference to other cities indicated on D-47, such as Cambridge, Greensboro, Savannah, Birmingham, and so on down, it would also be your opinion, would it, that the people residing in these communities were receiving the benefit of adequate banking competition as of the date that these statistics are effective?

A. My answer would be yes.

Q. Now, you testified also yesterday that you had occasion to consider and pass upon most bank mergers which were submitted to the Comptroller's Office during your period of office; is that right?

A. I had occasion to consider and make recommendations.

Q. Make recommendations?

A. I question that I said "pass on."

Q. I agree with you on that.

You made recommendations and/or considered most mergers which were submitted to the Comptroller's Office, did you?

A. That is correct; almost all of them.

Q. And you had substantially the same opinions on banking competition at that time as you have now, did you?

A. With one great exception.

[fol. 4016] Q. What is that?

A. I thought when I was in the Comptroller's Office that by virtue of my experience as a national bank examiner in the field, meeting with bankers, I understood fully how competitive banking is.

I went to Dallas, Texas, a little over a year ago and I have had my eyes opened widely. I didn't know, I didn't realize how competitive banking really is until I got down there and have spent a year in it.

There are angles to the competition that I hadn't really thought of when I was serving in Washington as a Deputy Comptroller. It is one of the most intensely competitive

fields that I can imagine; so, to that extent, my opinions have changed a little bit. I think I have been tied right into an aggressive competition that exists in commercial banks and it is necessary to live with it a while to realize how keen it is.

Q. Now, during the time that you were in the Comptroller's Office I believe you testified there were how many bank mergers submitted for your consideration?

A. Well, I told you yesterday I would make an informed guess. I checked last evening with the 1959 annual report of the Comptroller to the Congress, which contains a table giving the number of all mergers on which the Comptroller [fol. 4017] has passed favorably from January 1, 1950, through the end of 1959, and the table indicates that through that period (and that would cover most of the period that I was passing—that I was reviewing, I should say, such mergers) and I think the figure was a little less than 850. Let's say it was 840, 830—in that area. I didn't memorize it.

The Court: Your educated guess was between six and eight hundred yesterday.

The Witness: I was a little on the underside yesterday.

The Court: I think it was pretty close.

Mr. Reycraft: Pretty good.

By Mr. Reycraft:

Q. Do you recall, sir, whether, in your opinion, at the time that you considered them, any of them adversely affected competition?

A. Yes. There were a few, a very, very few that we decided it would be unwise to approve; and they were denied.

Q. Can you give me the names of those?

A. No. I feel that that is a matter that the Comptroller of the Currency would have to handle.

Q. Now, these are public matters, are they not?

A. Well, let me say this—that appearing before congressional committees with the Comptroller on at least two [fol. 4018] occasions he has been asked to supply such data and in each case the congressional committee gave the Comptroller the right to give the committee by number

only, without identifying the banks, the number that he had disapproved and the reasons therefor.

So, at least congressional committies have considered that it is not a public matter and the reason for that is that almost all of the disapprovals of mergers are done on an informal basis. It doesn't reach the point of having been in the newspapers and then the Comptroller says "no."

The banker or the banks will review the matter with the Comptroller and if he feels that he can not approve it, he will tell them so; and that is the best way to deal with it because a bank could be injured or harmed through publicity accruing from the dissemination of information that he had turned down a merger.

Q. And in those cases no formal application is made?

A. I believe in all of the cases that were denied a formal application was not presented. I might be wrong in one instance, but almost always they do not go to the work of preparing a formal application because they were persuaded it would be unwise for them to do it.

Q. So that, the disapproval is given prior to the filing [fol. 4019] of any formal papers?

A. In most of the denials—now, of course, obviously, there have been a case or two where, after we got fuller information than was presented in the initial instance, it was decided we should not approve; but even at that point no publicity accrued, so that it was still done on a confidential basis between the Comptroller's Office and the banks.

Q. But as to all of those situations where applications were formally made, it was after the assurance had been received that they would be approved; is that correct?

A. Oh, I wouldn't say in all cases by any means. A good many applications came in in written form where the group had not come to Washington.

Q. Those would be a minority?

A. But those were, I think, situations where it was quite clear to the bankers concerned that they had a very sound, solvent banking situation; that they had excellent reasons for the merger, so they wrote before coming in.

But, of course, let me point out this—even though the Comptroller receives the application in writing he might

have additional questions if he were concerned as to whether he could approve the application. In some cases he would ask them to come in for a discussion, so that in almost—I would say all cases it was handled on a basis [fol. 4020] where if it had to be turned down the bank was not embarrassed.

Q. So, with unimportant exceptions the banks knew, when they filed the applications, whether that proposed merger would be approved?

Mr. Littleton: Objected to. I can't see the slightest relevance to this, if Your Honor please. The Comptroller of the Currency and his methods are not on trial here.

Mr. Reycraft: I am examining Mr. Jennings on competition.

Mr. Littleton: You are not——

The Court: Read the question.

(The pending question was repeated by the reporter.)

The Court: Do you object?

Mr. Littleton: I object to it.

The Court: I sustain the objection.

By Mr. Reycraft:

Q. Now, of all the mergers considered by you during the time you were with the Comptroller's Office, you did indicate that you had an opinion that a few of them would have adverse effects on competition.

Now, can you tell me (and I won't ask you at this point to identify the banks) what the reasons were that [fol. 4021] you felt that they would have an adverse effect on competition?

The Court: You are coming into that same area again. Here is a man who could only make recommendations.

Mr. Reycraft: Yes, but he is testifying on his opinion.

The Court: The wording of your question indicates that he made the decision. You said it was a fact.

Mr. Reycraft: I will reframe the question.

By Mr. Reycraft:

Q. When you were forming your opinion, Mr. Jennings, can you tell me what factors you took into consideration in forming your opinion?

Mr. Littleton: Forming his opinion of what?

Mr. Reycraft: His opinion that any of these mergers had adverse effects on competition.

Mr. Littleton: Objected to.

The Court: Overruled, provided it is limited to the factors that he considered in recommending.

Mr. Reycraft: I so limit it.

The Court: If he can remember enough details to do it.

The Witness: I can remember the details of one case.

[fol. 4022] The Court: All right.

The Witness: On which I formed my recommendation for a denial to the Comptroller.

There were two banks in a community of about 12,000 people, maybe 15,000. The nearest banks outside of the community were one that was about 30 miles to the west, and another possibly 12 to 15 miles to the east. It was a school town. During the school session the population of the community was somewhat greater than the 12,000 to 15,000.

The two banks decided they wanted to merge. One was slightly larger than the other, but I think the smaller of the two was about $8 million, the larger of the two about $12 million. It would have made a $20-million bank.

I felt that creating a one-bank town out of that community, with no really near-by alternative choices, unless it was achieved at quite a hardship, was unwise. I recommended to the Comptroller that he not approve.

Both banks, incidentally, were in sound condition. One had a more progressive and active management than the other.

The comptroller agreed with me, and it was denied.

That is just one example.

[fol. 4023] The Court: It is 12:30. We will take a luncheon recess until 2 o'clock.

(Recess taken for luncheon at 12:30 o'clock P. M.)

[fol. 4024] [File endorsement omitted]

AFTERNOON SESSION

LEWELLYN A. JENNINGS, resumed.

Cross-examination. (Continued)

By Mr. Reycraft:

Q. Mr. Jennings, prior to the recess you gave some testimony concerning one bank merger that you recall coming under your consideration at the time you were in the Comptroller's office, as to which, in your opinion, competition would have been adversely affected. Do you recall that?

A. You mean the case that I just described?

Q. You referred to a case, yes.

A. Yes.

Q. Do you recall any others?

A. Oh, yes. There are others. The details of the one I outlined, for some reason, are more sharply set in my mind than others, but there are others that came along where the recommendation I made was adverse and which was followed out or accepted by the Comptroller, and I did deny them.

Q. You did deny them?

A. Yes.

Q. For competitive reasons?

[fol. 4025] A. Yes.

Q. Did any of these occur, to your knowledge, between 1950 and 1955?

A. I am not certain.

Q. You were acting comptroller during a brief period during that time, were you not?

A. Yes, but that was a very brief period, January, 1953, until April, 1953.

Q. Do you recall the fact that of 376 bank mergers submitted to the Comptroller's office during that period 376 were approved?

A. During what period?

Mr. Littleton: May I ask what you are reading from?

Mr. Reycraft: May 1, 1955.

And I am referring to the Interim Report of the Antitrust Subcommittee of the Committee on the Judiciary of the House of Representatives, 84th Congress, First Session, 1955, and I will show you page 36 and ask you whether that refreshes your recollection.

The Witness: Do you wish me to read this out loud?

Q. No, sir. I ask you whether you recall that out of [fol. 4026] 376 applications there were 376 approvals.

A. "It shows that from May, 1950, to May 1, 1955, the Comptroller and his predecessors have approved 376 bank mergers and consolidations involving total resources of 7.4 billion dollars. It also shows that since 1950 the Comptroller's office has not disapproved a single merger application on the basis of a possible substantial lessening of competition."

Yes, I remember this. I will say this: I am not positive where they got their information, and I remember at the time reading it and wondering where they got their information, because, to the best of my knowledge, they didn't get it from the Comptroller.

Q. Do you have any question about the accuracy of the facts?

A. I would have to say yes.

Q. You do have a question as to the accuracy of the facts?

A. Yes.

Q. And in what respect do you question the accuracy of the facts?

A. I am not at all sure that during that period there were no disapprovals where, at least, in whole or in part, [fol. 4027] competition was not a factor—elimination of competition.

Q. You can't think of any at the moment?

A. No, I cannot remember, but I distinctly remember that particular booklet, the report, and I wondered exactly where they got their information, because I don't believe it came from the Comptroller's office.

Q. Which doesn't necessarily mean that it is not accurate?

A. No. I agree.

Q. Now, the case that you referred to in which you did have the opinion that a merger would have an adverse effect upon competition, was there a formal application made in that case?

A. Well, it all depends on how you define "formal." The group came to my office, discussed it fully. I discussed it with the Comptroller, and we indicated, or, rather, Mr. Gidney, the Comptroller, indicated that he didn't believe it would be wise to approve such an application.

Now, after all, it is somewhat a formality as to whether an application is presented in person or whether it is presented in writing. I would say that they presented their application orally and were told that it was wholly [fol. 4028] unlikely under the circumstances that we would approve. They would have had the right to have sent in a written application. They would have had a right, I suppose, to ask that we make a complete investigation. This group did not, but I think that is sort of splitting hairs as to whether they wrote in for our opinion or presented a specific application or whether they came in in person. It is an application.

Q. In that case it was an oral rather than a written application?

A. That is my impression. That is my memory of it.

Q. This was a frequent type of application which you received; isn't that right?

A. Oh, I would say not. There were many instances where the groups came to consider the matter, but remember we are a big nation, and we have, the Comptroller's office, has 12 district chief examiners located in the 12 Federal Reserve Districts around the country, and in areas more removed from Washington many times the groups would go to visit with the district chief national bank examiner, get his views. In those situations we were more likely to get the application in writing rather than have [fol. 4029] the group travel 500 or a thousand or two thousand miles. In the East it was quite usual, because of distances, to have them visit us, to have the applicants visit in Washington.

Q. And make oral applications?

A. That is correct, yes.

Q. Now, you testified yesterday that you had an opin-

ion concerning the philosophies of bank superintendents, bank supervisory people, and you found that these opinions generally coincided with your own. Is that a fair statement?

A. Yes, it is a fair statement.

Q. And you testified to some degree here about your own philosophy on banking competition, and this is the same philosophy that you applied while you were a member of the Comptroller's office; is that correct?

A. Oh, I don't think it is fair to say that. As I told you this morning I think I have a greater awareness of competition in banking than I did a year ago. We don't remain static. I don't believe it is quite a fair question to say that I have exactly the same outlook today that I had a year ago. I don't think it is vitally changed. I am just better informed.

Q. And that outlook, as far as you know, coincides with [fol. 4030] the philosophy which was applied by the Comptroller's office after you left?

A. Well, that is a very difficult question to answer. It is my philosophy today——

Q. You testified with reference to the coincidence of your philosophy with those of many state bank examiners, so I thought you might be able to do it with reference to those you worked closely with.

A. I think maybe the Comptroller should indicate what his philosophy is and indicate whether he thinks his philosophy agrees with mine, rather than the other way around. I don't suppose there is any great divergence, but it is a little bit difficult for me to say that my philosophy is now the same as that of my former superior officer. I think he is the man to make that statement.

Q. You didn't find any great divergence while you were there, did you?

A. Well, let me say this——

Mr. Littleton: Objected to.

Mr. Reycraft: He testified yesterday about the philosophies.

The Court: He may answer it if he can.

The Witness: Let me say this, that no man, no group of [fol. 4031] men, can work in a bank supervisory capacity,

whether it is at state level or federal level, and always agree, but on the whole we did see eye to eye.

By Mr. Reycraft:

Q. You did see eye to eye?

A. Yes, on the whole we saw eye to eye, and our philosophies were quite the same at that time, and I would assume they still are, but I haven't been very close to my former chief in the last year, so I can't bring that right up to date.

Q. Did you find that the philosophy applied by the Federal Reserve Board, for example, was similar to yours, that there was no wide divergence?

A. On the whole, yes, taking the Board as a group.

Q. Did you read the Federal Reserve Board's report on the merger which we have under consideration here?

A. Yes, I did.

Q. Did you agree with that?

A. No, I did not.

Q. In what respect did you disagree?

A. Well, the Federal Reserve Board did not consider that this proposed merger should be approved, and I disagreed.

[fol. 4032] Q. Can you point to any of the factors which they took into consideration with which you disagreed?

A. I disagreed with the conclusion reached. I suppose the statistics set forth are accurate. I didn't check them. I don't believe that I would care to go through item by item and indicate what I might think about certain statements made in the Federal Reserve report. After all, it was prepared at staff level and approved by the Board. They set forth certain facts and statistics that we are all familiar with. It is the conclusion I disagree with. I don't think that they have weighed and considered the facts in such a way as to arrive at the same conclusion I would. I just disagree with the conclusion.

Q. It is not a question of disagreement on facts but it is a philosophical disagreement?

A. Well, I suppose that that would be true in part. They surveyed the whole field and they decided that in their best judgment it would be wise to deny. I just do not agree. Based on all of the facts that I have seen and have re-

viewed, I do not agree with the Federal Reserve conclusion.

Q. Did you read the report of the Federal Deposit [fol. 4033] Insurance Corporation?

A. I did.

Q. Do you agree with their philosophy?

A. Well, as I remember the FDIC report, it was favorable to the merger. I would say that the conclusion reached was that the merger should be approved.

Q. That is the way you read it?

A. That is the way I read it, and if I read it and interpret it correctly, I agree with that conclusion.

Q. On the assumption that they think the merger should be approved, you agree with it?

A. That is correct, and I could not read into it anything that was a statement to the Comptroller of the Currency that he should disapprove. I read into it, if my memory serves me correctly, that it was a statement to the Comptroller on the favorable side.

Q. You consider that a favorable statement?

A. That is my memory of the FDIC report to the Comptroller.

Q. Would you like to look at it to refresh your recollection at all or are you satisfied?

A. It might be wise, if you regard it as important.

Q. It is Government's Exhibit 163. That is the report. [fol. 4034] (handing), and will you, to hasten this a bit, turn to page 4, and would you read the last sentence of the paragraph which appears in the middle of the page.

A. "The two consolidating banks are now strong competitors with each other, as well as with other Philadelphia banks, both directly and through extensive branch systems, and it appears that consummation of the proposal would lessen competition to a significant degree in the Philadelphia area."

Q. Do you agree with that?

A. No, I do not, as I testified this morning.

Q. And you consider that statement to be favorable to the merger?

A. Well, if we will go over to the final page, the final paragraph:

"Therefore, it is concluded that the effect of the proposed consolidation on competition would be adverse as to Philadelphia and immediate suburbs but not adverse in the regional, national, and international fields of competition."

Now, obviously that leaves it up to the reader's interpre- [fol. 4035] tation but it is my interpretation that, on the whole, there is a favorable recommendation, because, in my experience, in dealing with the Federal Deposit Insurance Corporation, when they decide to be adverse, they come out flatly and say that they are against it. Here they made a recommendation which indicated that they felt that in the Philadelphia area it would be adverse to competition. I don't agree with that. And then they went on to say that it would be favorable, beneficial, to competition in the international field and on the national level, and, in my opinion, I look upon it as a favorable recommendation to the Comptroller as saying, "Go ahead, use your judgment."

Q. Would you read the preceding paragraph, which begins, "On the other hand."

A. On page 4 or the last page?

Q. The last page.

A. "On the other hand, in Philadelphia and the three contiguous Pennsylvania counties in which Philadelphia banks can have branches, the number of banks has declined from 104 in 1950 to 46 at the end of 1959. Three processed applications to merge and this proposal [fol. 4036] would reduce that number to 42. Resources of the seven largest commercial banks in Philadelphia at 12-31-59 represented 89.7 per cent of the total resources in commercial banks compared to 60.8 per cent on 12-30-50. This trend in concentration suggests a lessening of competition in the immediate service area. Consummation of this proposal which will combine the second and third largest commercial banks in Philadelphia would contribute further to that tendency. The consolidating banks presently are strong competitors with each other and with other Philadelphia banks, both directly and through extensive branch systems, and consummation of the

proposal would adversely affect competition to a significant degree."

Q. Do you regard that as a favorable recommendation to the merger?

A. I regard that as a statement setting forth their views, but they have not finally and specifically recommended against the proposal. They have simply stated that in their opinion it will reduce competition at the local level and increase competition otherwise.

Q. You say it would increase competition otherwise?
[fol. 4037] A. Yes.

Q. I believe you will find they say it would not be adverse in the regional, national, and international field.

A. I stand corrected. Not adverse in the regional, national, and international fields of competition. Of course, I feel so strongly that in those areas there is no question that competition will be increased that I inadvertently slipped up on that, but I still hold to the same belief that the Federal Deposit Insurance Corporation in its statement to the Comptroller—and you know as well as I do, this is not a recommendation; it is a statement to the Comptroller of the views of the Corporation—there is no specific disapproval, and having many, many years of experience with FDIC, when that Corporation disapproves, it says so. Now, it has not come out with a flat statement approving the merger, but I would say the statement leaves ground for the assumption that they favor it.

Q. All right. You referred to your experience in receiving recommendations of this type before. If you were receiving a recommendation of this type when you were in the Comptroller's office, you would have considered it a [fol. 4038] favorable recommendation; is that right?

A. I think I would, yes.

Q. Is it a fact that the Comptroller is a member of the Board of the FDIC?

A. That is correct.

Q. How many members are there on that Board?

A. Three.

Q. Do you think the Comptroller agreed with all this?

Mr. Littleton: I object to that.
The Court: I will sustain the objection.

By Mr. Reycraft:

Q. So that at least it required two out of three of the directors to submit this report?

Mr. Littleton: I object to that.
The Court: Sustained.

By Mr. Reycraft:

Q. Is your bank in Dallas a correspondent of either of the Philadelphia banks?

A. The Republic National Bank of Dallas does a very moderate amount of business with the Philadelphia National. We clear some of our Philadelphia and Philadelphia regional checks through the Philadelphia National. They clear some of their southwestern items through us. [fol. 4039] We have in the past, although we have nothing outstanding at the present time, sold them or participated in the making of with them a few oil loans. They have all been paid off. We have no participation loans with them at the present time. So, yes, we do some business with them. We wish we were doing more, but it is not a substantial interchange of business.

Q. Do they maintain a deposit in your bank?

A. Only to the extent that they clear checks that they receive here, that are on the southwestern books temporarily. I say temporarily. There is a continuing balance there in connection with the clearing of checks that appear on our books, and there is a continual balance on the books of Philadelphia National in connection with clearing our checks. It is pretty much of a reciprocal arrangement.

Q. Is the Republic National Bank the correspondent bank for the Philadelphia National throughout the Southwest?

A. No, I wouldn't say so.

Q. How wide an area would you say you service for them?

A. That we serve the Philadelphia National?

[fol. 4040] Q. Yes.

A. Well, in connection with check clearances I think we would cover the Southwest. Now, I am not positive whether the Philadelphia National clears some of their southwestern items through a Houston bank or not. Maybe that is a trade secret, but they certainly clear some of theirs through us and we clear some or all of ours in this immediate through them. We have a very friendly working arrangement, and, as I said before, I wish we could do more, but it is not a substantial working relationship. After all, we are two banks of quite comparable size, and we send our men to Philadelphia regularly to solicit the business in this area, and I might add that we have quite a bit of it.

[fol. 4041] Q. You consider that you are in substantial direct competition with Philadelphia National?

A. For certain business we are, and I have little doubt that they see to it that they have people traveling in the Southwest from time to time in connection with certain corporations that would have business activity in this area; so, to a certain extent, we are in competition, yes.

Q. You don't——

A. Certainly, if it were a question of going out after a large account that was halfway between and there was a question of going to Philadelphia or to Dallas, they would find us and we would find them in heavy and hot competition.

Q. Do you know how much business your bank gets from the Philadelphia area?

A. No, I do not. I have not made a survey of it, but it is quite substantial.

Q. And by "substantial," what do you mean?

A. We have some very fine accounts from this area in our bank.

Q. By "substantial," what area do you have in mind? What area of money?

A. Oh, it would go—oh, I hate to make too much of a guess on it. I can't possibly. I had better not.

The accounts are substantial, with the names—and I [fol. 4042] am not free to name them—if I would name them you would recognize them instantly. They have their headquarters in this area, they do some business in

the Southwest, quite a lot of business, and it is important business to us.

If I had realized you were going to ask that question I would have had the figure run off so I could have had a dollar total for you, but unfortunately I do not. I am not in the national-account end of our bank, and I didn't think to ask about it.

It is important enough to the point where we have a man up here calling on these accounts at least once every three months, and usually oftener.

Q. Now, you are referring, are you, to business which your bank does for these Philadelphia-based companies?

A. That's right.

Q. Now, this is business you do for them in your area?

A. Well, of course, these are corporations who do a great deal of business through the Southwest.

Q. And they require——

A. They have banking business there and we do it for them.

Q. And they require a banking connection down there?

A. They require a bank in connection with that; that is very true.

Q. Do you think that after this merger that business [fol. 4043] will be taken away from your bank and given to the combined banks?

A. No, it wouldn't work that way. We would expect to retain that business.

Q. It wouldn't be affected in any way by the merger, would it?

A. The accounts that I am thinking of, I do not believe it would be affected. Whether or not we have lines of credit with some of the very large corporations in this area, lines of credit or deposits, where the companies themselves are not active in the Southwest or so, but we are carrying some of the financing, I believe we do have one or two—now, that type of business could be affected; but where a Philadelphia corporation is operating nationally and are in the Southwest, of course, they have to have Southwest bank business or a bank account.

But then we have situations where, I am quite sure, a Philadelphia corporation, a very large one, might not be

operating in the Southwest, or if in the Southwest not in the Dallas area, and would have an account otherwise, but might have asked us to take on a piece of a participation loan, and they carry a balance with us—it would be a kind of an inactive balance and we would carry the loan. I am not sure that we have any of those, but it wouldn't surprise me if we did, because we have some very fine [fol. 4044] accounts out of this area.

Usually you have the connotation that ties itself into the Southwest.

Q. Now, these Philadelphia corporations that do business on a nation-wide basis, requiring bank service throughout the country, don't they have to have banks in the areas where they do business?

A. Oh, yes.

Q. You don't have any doubt about that?

A. No, I don't have any doubt on it. Of course, there is a great deal of difference in the kind of accounts they carry. A Philadelphia corporation operating nationally, or let's say just in the Southwest, they like to have their money fly home pretty fast; and while the collections they make in the Southwest would flow into our bank, it flows out pretty fast.

Of course, they have to carry a balance and that would cover our expense of handling it and we are very happy and proud to have it; but we find that it funnels back here pretty fast. That is the usual situation.

Q. Now, these national companies require these bank services throughout the country even if all the banks in town merge, don't they?

A. Even if all the banks in town were what?

Q. To merge.

[fol. 4045] Mr. Littleton: And by "town" you mean Philadelphia, I assume, Mr. Reycraft?

The Witness: Oh, you wouldn't change that. A company that's operating nationally will have to have some bank accounts, but there are exceptions. There are national concerns, Mr. Reycraft, that dislike very much to be in over two or three banks. That might be on the West

Coast, it might be in Chicago, this might be in Philadelphia.

By Mr. Reycraft:

Q. These are national companies that dislike being in more than three or four banks?

A. Yes. They would have three or four main depositories. Sure, they would have some other accounts, but they would run out very fast. The money would funnel back to three or four basic banks pretty fast.

We have tried to convince some of them that they should open up a fourth one in the Southwest. That's the reason I know about it, that would be more permanent and larger.

Q. Mr. Jennings, I am going to refer you now to Government's Exhibits No. 126 and 126-A and ask you if you will examine those documents.

A. Very well.

Q. Do you recall the meeting which is referred to in your [fol. 4046] memorandum?

By the way, this is a copy of a memorandum which you wrote, is it not?

A. Yes, it is.

Mr. Littleton: Are you referring to 126-A?

Mr. Reycraft: I am referring to 126-A.

Mr. Littleton: If Your Honor please, I object to any cross-examination upon an exhibit which is an internal memorandum of the Comptroller of the Currency's office.

Mr. Reycraft: That is no ground for objection.

Mr. Littleton: I am making the objection.

The Court: Let me see G-126-A.

Mr. Littleton: I don't believe he is representing the Comptroller here.

I have an added objection, Your Honor, as to relevancy.

Mr. Reycraft: I might point out that this exhibit is already in evidence.

The Court: It has been admitted into evidence; but you are objecting to its use in the cross-examination of this witness?

Mr. Littleton: I am, sir.

The Court: And I sustain the objection. I don't see

where it has any relevance in connection with any testi- [fol. 4047] mony given by this witness.

By Mr. Reycraft:

Q. You testified, Mr. Jennings, with reference to competition between Philadelphia National Bank and the Girard Trust Corn Exchange Bank; is that correct?

Mr. Littleton: Direct him to the place you are referring to.

By Mr. Reycraft:

Q. Throughout your direct testimony you testified as to the effect on competition of this proposed merger; is that right?

A. Yes, I did.

Q. And you gave some testimony as to the competition that existed between the banks?

A. Yes, I did.

Q. Now, do you recall Mr. Potts telling you that the Girard Corn Exchange Bank was breathing down his neck in 1953?

Mr. Littleton: Objected to.

The Court: I sustain the objection.

Mr. Reycraft: I have no further questions.

Mr. Littleton: Mr. Price?

By Mr. Price:

Q. Mr. Jennings, Mr. Reycraft asked you about G-163 with reference particularly to the import of that report. [fol. 4048] Will you turn to the third page of that report and read, starting at the ninth line from the bottom of the page?

A. The FDIC report?

Q. Yes.

A. And the page is?

Q. The third page of the report, starting at the ninth line from the bottom, "If the proposal were consummated——"

The Court: G-163? I don't recall him examining on that.

Mr. Reycraft: That is the FDIC report, Your Honor, and I did ask him.

The Court: Oh, the FDIC report. Oh, yes. I have it straight now.

Mr. Price: Start with the last paragraph.

The Court: You are talking about this?

Mr. Reycraft: Yes.

The Court: Now, what page are you referring to, Mr. Price?

Mr. Price: The third page of the report, sir.

The Court: All right.

By Mr. Price:

Q. The eighth line from the bottom, starting with the words, "If the proposal were consummated——"

A. Yes.

[fol. 4049] Q. Will you just read that out loud, please?

A. "If the proposal were consummated, the resultant bank would rank only fifteenth nationally and there would be seven larger banks outside of New York. When the twelve largest metropolitan areas in the country are ranked on the basis of deposits, loans, and lending limits of the biggest bank in each area, Philadelphia stands tenth or eleventh in each category. Following the proposed consolidation, it would climb to only seventh or eighth position. As an interesting comparison, Cleveland's metropolitan area has a population equal to about 40 per cent of that of the Philadelphia metropolitan area; yet, Cleveland's largest bank is 19 per cent larger than Philadelphia's largest bank in assets and 25 per cent larger in capital and surplus. The desire to improve Philadelphia's competitive position nationally is stated to be the primary purpose behind the proposal."

Q. And now the first three sentences of the second full paragraph on that page, beginning, "Philadelphia's largest——"

Mr. Reycraft: Your Honor, before he goes to that I have some objection because this paragraph from which he just read is a summary of the contentions made by the [fol. 4050] merging banks and does not represent the con-

clusion of the FDIC, as a full reading of the paragraph will plainly demonstrate.

Mr. Price: That is a statement of fact that I asked him to read. The conclusions of the applicants were the earlier part of the paragraph, which I did not ask him to read.

Mr. Reycraft: The entire paragraph indicates, when not read out of context, that these are the contentions of the merging banks.

The Court: Wait a minute. Let me see what it says.

I see what it says. Go ahead. I put it in proper context.

Go ahead.

Mr. Price: Yes, sir.

By Mr. Price:

Q. Now the second full paragraph on that page, starting "Philadelphia's largest—" —just the first three sentences.

A. "Philadelphia's largest single industry is the petroleum industry with six major refineries in the area, yet only two of these companies are known to carry more than accommodation balances in any Philadel- [fol. 4051] phia bank. It is stated that 26 of the nation's largest manufacturing enterprises have headquarters nearer to Philadelphia than to any other major banking center, but as of 12-31-59 these had only 12.9 per cent of their cash on deposit with applicant and only 4.4 per cent with Girard. These concerns are heavily dependent on larger banks in other cities (notably New York) for their major financial requirements."

Q. Did you consider, in reading this report, that those statements and perhaps others like them threw some light on the conclusions that the FDIC itself reached, which was indicated by the last paragraph of their report?

A. Well, yes, I did consider that it threw some light on it.

Q. Mr. Reycraft asked you about Gary, Indiana, and I will ask you to look at Exhibits D-47 and D-55.

A. I have them.

Q. On D-47 Gary, Indiana, is shown to have 88.4 per cent of the assets——

A. That is correct.

Q. —of the bank in Gary, and on D-55 Gary——

The Court: Lake County?

By Mr. Price:

Q. —Lake County, Indiana, is the area for which the per-
[fol. 4052] centages are shown.

I will ask you whether you consider Lake County, Indiana, as a reasonable area, geographical area, to be used as the basis of relative banking concentration and banking activity.

Mr. Reycraft: I object to that. He said he hadn't studied Gary, Indiana; all he knows about is what appears in these exhibits.

Mr. Price: He is familiar with Gary.

The Court: Read the question.

(The pending question was repeated by the reporter as follows:

"Q. I will ask you whether you consider Lake County, Indiana, as a reasonable area, geographical area, to be used as the basis of relative banking concentration and banking activity.")

The Court: I will sustain the objection because he has already answered the question.

By Mr. Price:

Q. Based upon the two sets of figures in the two exhibits, what can you say about the validity of using percentage figures alone as a basis for determining the harmful or beneficial quantity of concentration or a tendency toward monopoly in the banking industry?

[fol. 4053] A. I think it is very dangerous; unwise, certainly, to rely on a percentage figure alone. As a matter of fact, it never should be done.

You must take into consideration all of the factors that have a bearing on competition in a city or a metropolitan area, and the fact that the lead bank has 50, 60, 70 per cent certainly is not sufficient evidence at all to indicate that

the public in that area is not receiving adequate banking competition. It goes beyond percentages.

Mr. Price: That's all I have.

Redirect examination.

By Mr. Littleton:

Q. Mr. Jennings, at the outset of his cross-examination of you Mr. Reycraft elicited from you the fact that during the past several years the Republic National Bank of Dallas has increased its lending capacity, its lending limit, by increasing its capital, either through a transfer from undivided profits to capital accounts or by sale of stock.

Would you tell us whether, in your opinion, it is possible or feasible or economic for the Philadelphia National Bank to acquire the increased lending capacity that it would acquire through this merger by the sale of stock?

The Court: Just a minute. Did he testify to any of those things this morning? I didn't hear him.

[fol. 4054] Mr. Reycraft: I didn't ask those things.

Mr. Littleton: Strike it.

By Mr. Littleton:

Q. Mr. Reycraft elicited from you that you had increased your lending limit by natural growth and without merger.

A. That is my remembrance.

Q. Did you do this by transfer from undivided profits to capital accounts or by the sale of stock?

A. We did it by both methods. Actually the bank, from 1950 to 1960, or let me go back a bit, since the war—in the last fifteen years—has certainly gone to market at least ten times and sold new common stock. There have been stock dividends involved because, after all, one basically increases capital structure by two methods—retained earnings or the sale of new capital.

I don't remember the exact amount that was raised in new capital since the end of the war, but it would be in the neighborhood of $20 million or $25 million that was raised from that source. We have, with our reserves now,

about $130 million, and I would think $20 million to $25 million grew out of the sale of the stock.

Q. $20 million or $25 million of stock or $25 million?

A. The proceeds from the sale of new stock, which would go to the capital account and surplus, because the stock [fol. 4055] was invariably sold at a premium over par.

Q. Which would increase your lending limit by how much?

A. Well, of course, our lending limit is now $10,500,000. I would say in 1950 the lending limit was well under $5 million. I'd say 3½ to 4.

Q. How much of the increase in lending limit came about as a result of the sale of stock?

A. Well, of course, if we sold $20 million of new stock, that was the total proceeds, that in itself would give us about a $2-million increase.

By Mr. Reycraft:

Q. Did you say $25 million or $20 million?

A. $20 to $25. Now I am speaking from memory. I haven't computed it.

Q. $25 million would be $2½ million?

A. If it were 25, it would be 2½ million. I would say on the conservative side that $20 million of new capital has been sold there since the end of the war.

By Mr. Littleton:

Q. In your opinion, would it be possible or economic or feasible for Philadelphia National Bank to increase its lending limit by the amount which it would be increased by this merger through a sale of stock?

Mr. Reycraft: I object. I object. He hasn't made any [fol. 4056] study of the capital structure of Philadelphia National Bank.

Mr. Littleton: How do you know?

Mr. Reycraft: You haven't qualified him; you are outside of the scope of the ~~cross~~-examination.

You haven't indicated on direct that he made any study and I submit that he has no knowledge.

The Court: Your objection is that it is not redirect examination?

Mr. Reycraft: Yes, sir.

The Court: Are you objecting on that ground?

Mr. Reycraft: Yes, sir. I am.

The Court: Your objection is sustained.

By Mr. Littleton:

Q. In your opinion, is there any difference in the conditions in the Philadelphia area and the Dallas area which would affect the sale of stock of a bank?

Mr. Reycraft: The same objection, Your Honor, on the same ground.

The Court: Is this something you forgot to cover on direct examination? If it is, you might as well face up to it.

Maybe I will let you reopen direct.

If you are trying to slide it in under redirect, you are [fol. 4057] not permitted, so we will stop right there.

Mr. Littleton: Very well. That's all, thank you, Mr. Jennings.

Mr. Reycraft: That's all.

Mr. Price: Let me ask Mr. Jennings one more question.

By Mr. Price:

Q. Mr. Jennings, you spoke in answer to Mr. Reycraft's question about not expecting to lose any business from Dallas to Philadelphia as a result of this merger. Did that indicate in any way that you would consider the competition for that particular company's banking business to be any less, either in Philadelphia or in Dallas?

A. Well,——

The Court: He is talking about a particular type. He spoke of two types, one which would be competitive and the other because of banking connections down there he would hope not to lose and wouldn't expect to.

The Witness: That's right.

The Court: That has been fully explained as far as I am concerned.

Mr. Price: I beg your pardon?

The Court: I say that has been fully covered for all the needs of the Court, Mr. Price.

[fol. 4058] Mr. Price: If it is covered in that way, I have nothing further to ask.

The Court: All right.

Mr. Littleton: Thank you, Mr. Jennings.

Mr. Littleton: Mr. McGinley.

EDWARD F. MCGINLEY, JR., having been duly sworn, was examined and testified as follows:

Direct Examination.

By Mr. Littleton:

Q. Where do you live, Mr. McGinley?

A. 304 Berwick Road, Merion, Pennsylvania.

Q. What is your present occupation?

A. President of the Beneficial Savings Bank at 12th and Chestnut.

Q. How long have you been in the banking business?

A. Oh, that's the only thing I have ever been in in my adult life; 1925.

Q. I was going to say, you were once an All-American tackle. Have you been in the banking business ever since then?

A. Yes. That's right; and I don't know which is the toughest.

[fol. 4059] How long have you been president of Beneficial Mutual Savings Bank?

A. February of this year, sir.

Q. Will you describe the various positions which you have held prior to that time, and start from the earliest.

A. Well, I started when I graduated. I went to New York with the National Bank of Commerce in a training program and later, in 1930, went with the Chemical Bank and left there in 1952.

Q. Before you leave there, in what capacity did you go there?

A. I went there really as a clerk.

Q. Did you become an officer?

A. Yes, sir. I became a vice-president in 1939.

Q. Go ahead.

A. I stayed there until January 1, 1952, when I went to Buffalo as president of the Liberty Bank of Buffalo.

I came back here five years ago as vice-president of Fidelity-Philadelphia Trust Company and in January of this year was elected president of Beneficial.

Q. Keep your voice up.

A. I am sorry.

Q. What were your duties and responsibilities at Chemical Bank?

[fol. 4060] A. I am sorry.

Q. What were your duties and responsibilities at Chemical Bank?

A. Primarily the development and handling of business from customers and also the solicitation of business from prospects, non-customers.

Q. Over what geographic area?

A. Primarily starting in three states—New York, New Jersey, Pennsylvania; and then later concentrating on Eastern Pennsylvania and South Jersey.

Q. How many other persons in Chemical were assigned to the Eastern Pennsylvania area?

A. Well, when I first started I was the only one and when I left in 1952 we had a half a dozen. I don't know it it was five or six.

Q. Did you cover the whole Third Federal Reserve District?

A. Oh, yes; very intensely, too.

Q. What type of customer did you solicit?

A. Oh, almost everything except personal business, and we would even try to get some of that from sizable individuals or wealthy individuals.

I would say the only thing we did not solicit was personal-trust business.

Q. About how many corporations or individuals were [fol. 4061] included in the group which you solicited?

A. Oh, well, your oil companies, your railroads, your insurance companies, Scott Paper Company—I say "insurance companies" and I had in mind life-insurance companies, but also fire, casualty; Electric Storage Battery,

Philco—all your larger and some medium-sized corporations.

Q. How successful were you in your solicitation?

A. Well, apparently the management thought well enough to take me from a representative to a vice-president in eight years, so I guess——

Q. Did you continue soliciting work in the Eastern Pennsylvania area after you were vice-president?

A. Oh, yes, very actively; and also that's when we had—when I had people supplementing my efforts; and then I became in somewhat of a supervisory capacity, but I doubt if ever a half a dozen weeks went by that I didn't spend a week or ten days in this area personally.

Q. At this time that you were vice-president and soliciting for Chemical, what was the size of Chemical and its relative position among other New York banks?

A. Well, in the early thirties it was approximately $300 million; by, oh, 1952 or '51, when I left there, I would say it was a couple of billion dollars, and now it's $4 billion plus or minus.

[fol. 4062] Q. To your knowledge, did other New York banks solicit in this area?

A. Oh, very intensely, sir, very intensely; both New York banks and other cities.

Q. Can you name any of the other cities?

A. Oh, sure—Chicago, Pittsburgh, Detroit, Kansas City, St. Louis, Atlanta, oh, San Francisco—all the larger cities in the country had representatives in this area.

Q. After you left Chemical and went to Buffalo, I won't ask you about that period; but then you came to Fidelity-Philadelphia Trust Company?

A. Yes, sir.

Q. As vice-president, in January of 1957, you said?

A. Yes, yes. January of 1957; that's right.

Q. After you became vice-president of Fidelity were you aware of the continuing solicitation by New York banks?

A. Oh, very much so, sir. There wouldn't be a week go by without two or three representatives of different institutions calling on me personally; and I am sure that I didn't see them all. I am sure that there were a lot of them that I didn't see that were calling on my associates.

Oh, the activity, the efforts on their part is tremendous, the competition.

Q. Were they people whom you knew?

[fol. 4063] A. Oh, very well, very well.

Q. Were they soliciting not only your bank, but any of your customers?

A. Yes, and would come in to exchange ideas and to find out who the right man to contact was, and also about the credit standing of these companies, and even ask your intercession for them, even ask you to introduce them.

Q. That is, ask you, not me.

A. Yes, I am quoting—it's myself, not you. That's right—ask me or ask my associates to intercede for them and introduce them to people.

Q. Would you say that this solicitation by New York banks is as great as or greater than it was when you were last actively soliciting for Chemical?

A. Absolutely, sir.

Q. Absolutely what?

A. What's that?

Q. You say "absolutely"——

A. I am absolutely sure that it is even more active now. The banks are more sizable, their staffs are larger and, oh, you can't walk up and down—I can't walk up and down Chestnut Street without seeing two or three representatives of different institutions throughout the country.

The Court: Let's take our mid-afternoon recess.

[fol. 4064] Gentlemen, I have a matter in chambers, and I will probably be delayed five minutes. I have a matter I have to attend to in the office, so we will make it fifteen minutes.

(A recess was had)

[fol. 4065] Q. Mr. McGinley, when you were soliciting for Chemical Bank, soliciting business for Chemical Bank in the Philadelphia area, you were soliciting for deposits as well as loans?

A. Deposits, loans, corporate appointments, registrar, transfer agent.

Q. What magnitude or order of deposits would you solicit in Philadelphia County?

A. Well, the larger, the happier they made you, but

we were naturally interested even in getting an account of nominal size with the thought that we could build it up.

Q. Have you any idea of the number of companies with whom you were successful in getting them as customers, coming from banks in this area?

A. Well, I have a great deal of pride in that regard. I would say 75 to 100.

Q. And what would be the order of their deposits in the aggregate?

A. Oh, from $10,000 to a million, a million and a half.

Q. Did you solicit banks as well as business corporations?

[fol. 4066] A. Very actively, sir.

Q. It all came within your area?

A. Yes.

Q. And did your assistants work actively in this same solicitation in the same area?

A. Yes; yes, sir.

Q. Of what order were the loans which were developed through your solicitation of these businesses?

A. What order?

Q. Of magnitude.

A. They would be anywhere from $10,000 up. We didn't get many loans under that. They would go primarily to the local bank, or if we got a loan smaller than that, it might be a participation through one of these correspondents, where we were taking an override from them.

Q. Now, turning to your work for Beneficial, in what type of service, if any, did Beneficial Saving Fund compete with commercial banks?

A. Savings accounts, of course, and our mortgage loans, and that competition is pretty keen.

Q. That is keen with the commercial banks?

A. Very.

Q. What is the nature of your competition other than [fol. 4067] commercial banks for savings deposits?

A. For our mortgage loans, for our loans.

Q. First I am asking for your savings deposits.

A. Yes. I don't understand, sir.

Q. What institutions compete with you for savings deposits?

A. Oh, everyone in the city. Besides the savings banks, the commercial banks are very, very active, and I think the newspaper ads confirm that.

Q. On the savings and loans, you mean?

A. No, I am talking about commercial banks.

Q. And then you said the savings funds also.

A. The savings banks, the other savings banks as well as the commercial banks are very keen competitors for deposits.

Q. You have heard of this proposed merger of the Philadelphia National and Girard. In your opinion, what effect will that proposed merger have on the competitive position of your savings fund society?

A. Oh, I think it will increase it, sir. Convenience is a great factor in our business. They would have a larger number of offices. They would certainly have a larger advertising budget, and, I would say, the competition, [fol. 4068] without reservation, the competition would be intensified.

Q. It will be increased by it?

A. Yes.

Q. In your opinion, will the proposed merger have any effect on the interest rates paid on savings deposits?

A. Not a bit, sir. That is in the hands of the supervisory authorities. A bank can pay lower rates, but they can't pay beyond the ceiling established by the regulatory authorities.

Q. Will the proposed merger have any effect on the interest rates charged on loans?

A. Oh, that is supply and demand, sir. That is purely supply and demand. No, no, that wouldn't be a consideration at all.

Mr. Littleton: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. McGinley, are you a director of any commercial bank?

A. No, sir.

Q. Are any members of your Board of Directors also directors of commercial banks?

[fol. 4069] A. Yes, sir.

Q. Which banks?

A. First Pennsylvania Company, Provident Tradesmens. We have one, I think, on Philadelphia National. I believe that is all, sir.

Let me look.

Yes, I think that's all.

Q. Did I understand you to testify that you were in direct competition with these commercial banks?

A. On savings, yes.

Q. You compete with them directly for savings accounts?

A. Yes, sir.

Q. And you have interlocking directorates with some of them?

A. Yes, sir.

Q. Does your institution have deposits with commercial banks?

A. From?

Q. Yes.

A. No, we are not allowed to take them.

Q. Do you have deposits with commercial banks?

A. Yes.

Q. Why do you have them?

A. We as a savings bank are not members of the Fed-

[fol. 4070] eral. We are not eligible to be members of the Federal, and they are reserve funds with us. They keep our reserve funds, and they take care of all our clearings.

Q. And you can't do that through your own institution?

A. Oh, no.

Q. Another savings bank couldn't do that for you, could it?

A. No.

Q. What commercial banks do you have deposits with?

A. Our most active account is First Pennsylvania. We have an active account with Provident Tradesmens. We have complimentary accounts, we call them, with Philadelphia National, Girard Trust, Broad Street. That's

about it. Oh, we have a small account with the Chemical Bank of New York. That's about it.

By the Court:

Q. Not with Fidelity?

A. Oh, that's right, Fidelity, that's right. That's an active account also. Thank you, sir.

By Mr. Reycraft:

Q. Do you have checking acounts with any of these banks?

A. Oh, they are all checking accounts. They are all demand accounts.

[fol. 4071] Q. Could you carry on the business of your bank without a checking account?

A. Oh, no, sir.

Q. You require the services of a commercial bank?

A. Absolutely. We would not have any way of getting the money out after we put it in.

Q. Is your institution allowed to own bank stocks?

A. We have a few. We have a small common stock portfolio. I think it is about $2 million out of a total portfolio of 120 to 125, security portfolio.

Q. And do you own stock in any Philadelphia bank?

A. Yes, a few. I think we have some stock in both Philadelphia National and Girard. If we do, it might be a thousand shares or so.

Q. And if they merged, you would receive stock in the merged bank?

A. What is that, sir?

Q. You would receive stock in the merged bank?

A. That is right.

Q. Does your bank have trustees?

A. We call them Board of Managers. I think we are talking about the same thing.

Q. Are any of those persons officers or directors of either PNB, Philadelphia National Bank, or Girard?

[fol. 4072] A. None in Girard. We have one Board of Managers director of Philadelphia National. I don't know whether he is still a director or not. He is an elderly man, retired.

Q. He either is or was?

A. Is or was, yes.

Q. Were any of the incorporators of your bank in the Philadelphia National Bank or Girard?

A. That is 108 years ago, sir.

Q. I will withdraw the question.

Are the incorporators elected every year?

A. What, sir?

Q. Are incorporators reelected annually?

A. Yes.

Q. Do you know whether any of the current incorporators are in the Philadelphia National Bank or Girard?

A. I would say no.

Q. When were you asked to testify, Mr. McGinley?

A. I called up and offered to testify. It seems to me it was on Monday morning, if this appeared in the paper Saturday. I called up and volunteered.

Q. Your bank makes solely mortgage loans; is that right?

[fol. 4073] A. Yes.

By the Court:

Q. You heard something about the mutuals making renovation and remodeling loans?

A. Oh, yes. We have 100 or 200 thousand FHA, Title 1, yes, a nominal amount.

By Mr. Reycraft:

Q. Just a nominal amount?

A. Yes, a nominal amount.

Q. On the basis of your knowledge of other savings banks in the area, would you say that the amount of home modernization loans that they have is also nominal?

A. I don't want to answer for them, but I would guess so. I don't think they are any more substantial percentagewise than we are. Could be.

By the Court:

Q. You haven't made a particular drive for it, I take it, have you?

A. That's right, sir.

By Mr. Reycraft:

Q. I believe you testified also, Mr. McGinley, that some of these New York bankers you referred to called on you from time to time to ask you whom to contact in the area?

[fol. 4074] A. That's right.

Q. This is when you were with the Fidelity?

A. Yes, still do, even currently.

Q. They do currently. At the time you were with the Fidelity did you consider them your competitors?

A. Very definitely. Now they are not competitors.

Q. Pardon me?

A. Now they are not competitors when I am at Beneficial, because we don't do corporate business now.

Q. You are not in competition with those New York banks?

A. Not now. Only for deposits and mortgage loans.

Q. And you are not in competition with any bank in this area except for that; is that right?

A. That's right, and I am certainly not in competition with a bank in Detroit and Chicago and elsewhere, like you are when you are in a commercial bank.

Q. These New York bankers that came to call on you when you were with the Fidelity were competitors of yours and yet you introduced them to your customers; is that right?

A. Yes.

Q. And you didn't mind doing that?

A. Not a bit because I had to travel quite a bit and [fol. 4075] ask the same favor of them when I was in Chicago or Detroit or New York.

Q. Your competitors in Chicago would introduce you to their customers?

A. Very definitely. They would go further than that and give you an automobile and driver to go see them.

Q. Did you consider this as strenuous competition?

A. You bet I did; you bet I did.

Mr. Reycraft: That is all.

Mr. Littleton: I have no other questions. Thank you very much, Mr. McGinley.

J. Milton Hoffa, having been duly sworn, was examined and testified as follows:

Mr. Reycraft: Your Honor, I might point out that Mr. Hoffa is not on the list of witnesses which was given to us, and I object to his testifying.

Mr. Price: He was on the original list. I guess it was so long ago Mr. Reycraft has forgotten. However, he is the comptroller of the bank, and he is simply going to explain his calculation of the pro forma figures on the exhibits that we referred to this morning.

[fol. 4075a] The Court: He has been present at every minute of every session of this trial, and he was on the original list. I thought you were cutting it down. I have been wondering who he was. Now I am satisfied. I am going to let him testify.

Direct examination.

By Mr. Price:

Q. Mr. Hoffa, I refer you to D-39——

The Court: Don't you think you better introduce him on the record?

Mr. Price: I beg your pardon, sir. I thought I had already introduced him.

By Mr. Price:

Q. Mr. Hoffa, your position with the Girard Trust Company is what?

A. Comptroller.

Q. And have been for how long?

A. Since 1952.

Q. I ask you to refer to D-39, which contains a list of 17 banks in New York with lending limits in excess of a million dollars.

A. Yes, sir.

Q. Did you at my request likewise ascertain the num-

ber of banks in addition to those 17 which have main offices [fol. 4076] in New York City?

A. Yes, I did.

Q. How many are there?

A. In addition to these 17, there were 29.

Q. And what were their aggregate assets?

A. $1,637,000,000.

Q. And their aggregate deposits?

A. $1,390,000,000.

Q. And their aggregate loans?

A. $784 million.

Q. Will you refer to D-54 and D-55.

A. Yes, sir.

Q. Did you make the pro forma calculations which appear in the footnotes on those two exhibits?

A. Yes, I did.

Q. And do they conform to the figures which appear on the respective exhibits themselves?

A. That is correct. They have been added.

Mr. Price: Cross-examine.

Mr. Reycraft: No questions.

Mr. Littleton: I have no questions.

By Mr. von Starck:

Q. Mr. Hoffa, I show you a copy of D-18, which is entitled "Comparison of Relative Growth of Deposits of [fol. 4077] Banks in the Delaware Valley with Deposit Growth of the Philadelphia National Bank and Girard Corn Exchange Bank" and ask you if you prepared the figures which appear in the back of that volume?

A. Yes, sir, I did.

Q. And the charts which appear ahead of that are based on those figures, are they not?

A. Yes, we verified the charts.

Mr. von Starck: That is all.

Mr. Reycraft: No questions.

JOHN P. ADAMS, having been duly sworn, was examined and testified as follows:

Mr. Price: If Your Honor please, I would like to have marked as D-12-A and D-13-A addenda to defendant's

Exhibits D-12 and D-13, which now corrects the three errors which Mr. Reycraft called attention to on the cross-examination of the witness who described these originally, plus two others, so that it makes them now accurate, and in order to keep them with the original exhibits, I suggest they be marked D-12-A and D-13-A.

The Court: They may be.

[fol. 4078] (Paper headed "Addendum to Defendants' Exhibit D-12" was marked Exhibit D-12-A for identification.)

(Paper headed "Addendum to Defendants' Exhibit D-13" was marked Exhibit D-13-A for identification.)

Direct examination.

By Mr. Price:

Q. Mr. Adams, what is your position with the Girard Trust Company?

A. I am a senior vice-president.

Q. And have been for how many years?

A. Since January of 1958.

(Document headed "Girard Trust Corn Exchange Bank Branch Area Deposit Survey" was marked Exhibit D-56 for identification.)

Q. I show you a table marked D-56 and ask you if that was prepared under your supervision and direction?

A. Yes, sir, it was.

Q. What is that?

A. Pardon me, sir. No, sir, not this exhibit. I looked at it too hastily. This exhibit was prepared under the supervision of the vice-president in charge of branch ad-[fol. 4079] ministration.

Q. Of the Girard?

A. That is right.

Q. Are you familiar with this exhibit, what it shows?

A. Yes, sir, I am.

Q. Can you tell me what it is?

A. This is a sample of a type of survey that is conducted occasionally by the Branch Administration Department in which they endeavor to determine the percentage of deposits within a certain area radius of the office. This particular survey has six suburban offices and five Philadelphia offices. It shows the total deposits of each office for regular checking demand and time deposits. It shows the deposits of the suburban offices in the two-mile radius circle of the office and a percentage represented of the two-mile radius as against the total.

For the Philadelphia offices it has similar total deposits and also the one-mile radius deposits and the two-mile radius deposits, and it shows a percentage of each, the one-mile and the two-mile, as against the total regular checking and time deposits.

[fol. 4080] Q. When was this study first projected?

A. This particular study was started last summer.

Q. Before or after the merger activity?

A. It was started before the merger activity.

Q. Did it have anything to do with the merger?

A. No, sir.

Q. I wanted to indicate whether or not it was initiated because of the merger or entirely independent of that.

A. It was independent of the merger.

Q. And that is the reason why all the branches were not examined?

A. Well, as I said, this is a typical type of such a survey, and they just happened to pick out these particular offices——

Q. Do you know why they were selected?

A. If you will notice, there is a certain grouping. For example, the Bala-Cynwyd, Narberth, Wynnewood offices are in the so-called Narbeth division. Now we call it the Main Line division, and the other three are in the Delaware County division. In the city the last on the list are relatively close together, so that it was a matter of con-

[fol. 4081] venience of those who were making the survey.

Q. I notice that in the percentage figures there are some that are conspicuously low and some conspicuously high in the last column. Have you any comment that you want to make with reference to those, the 65 and 67 per cent as against 83 and 86 per cent?

A. In the suburban group the Newton Square office is in a rather sparsely settled suburban community, so that it not being in as relative a popul-us area the residents are more spread out, so the deposits are more spread out.

69th Street is a transportation hub. There are many feeder lines into it from the suburbs through cars, buses, and automobiles, and coming west from the Philadelphia Transportation Company, so that a number of people journey to and from work and stop at the time and do their banking. They don't particularly live in the neighborhood. It is also kind of a commercial neighborhood in the immediate 69th Street area.

Q. And what about the 67 per cent for Arch Street in the city?

A. The Arch Street office is a central city office in a [fol. 4082] commercial neighborhood, and it is not much of a residential neighborhood, and a number of the people who would be associated with businesses in that office would use the banking facilities but might not necessarily live in close proximity to the office.

Q. Now, Mr. Adams, will you refer to D-43.

A. Yes, sir.

Q. That exhibit was identified and described by Mr. McDowell, and I merely want to ask you whether the figures that appear for the Girard Trust Corn Exchange Bank on that exhibit were calculated in the same manner as those for the Philadelphia National Bank, as described by Mr. McDowell.

A. Yes, sir, they were.

(Document entitled "Number of Girard Loans to Customers Located Within the Four-County Area, Distributed by Size and Type of Loan," was marked Exhibit D-57 for identification.)

Q. Mr. Adams, I show you a paper that has been marked D-57 and ask you what that represents.

A. This shows a number of Girard loans to customers located within the four-county area distributed by size, class, and type of loan. On the left-hand side of the ex- [fol. 4083] hibit are the size classes in two columns, and across the top of the exhibit are three major types of

loans—commercial and industrial, consumer installment, real estate, and collectively all others. There is a total on the right-hand side for each size class and a total at the bottom of each type of loan.

Q. And that corresponds with D-17 relating to the Philadelphia National Bank, does it not?

A. I will accept what you say. I don't have it here.

Mr. Price: Well, may I state of record that that is the companion exhibit.

(Document entitled "Girard Trust Corn Exchange Bank, Lending Authorities of Officers" was marked Exhibit D-58 for identification.)

Q. I show you an exhibit marked D-58, Mr. Adams, and ask you what that is.

A. This is a clean copy of an exhibit entered by the Government. It is exactly like the one, except in form and cleanliness, entered by the Government. We were requested by the Justice Department for a great deal of material, and we tried to get it to them as rapidly as possible. The other material we sent to them were pictures of records that we had, and it was an internal record, and there were some corrections, things crossed out, and [fol. 4084] so forth, where men had left. This is a correct, clean copy.

Mr. Price: And the Government's exhibit was G-83.

(Copy of letter dated May 15, 1961, from W. M. Taylor, Deputy Comptroller of the Currency, to Mr. George H. Brown, Jr., President, Girard Trust Corn Exchange Bank, was marked Exhibit D-59 for identification.)

Mr. Price: If Your Honor please, I would like to have marked as Defendant's Exhibit D-59 a copy of the letter from the Deputy Comptroller of the Currency, dated May 15, 1961, reading as follows:

> "All the documents relating to the subject consolidation enclosed with a letter dated May 12, 1961, from Mr. Carroll R. Wetzel, Attorney for your bank, are in acceptable form and the special meeting of share-

holders of your bank held on May 9, 1961, may be finally adjourned.

"Very truly yours,

"(Signed) W. M. Taylor, Deputy Comptroller of the Currency."

That confirms the date of May 9, which I think Mr. Brown referred to as the date of the meeting of stockholders.

[fol. 4085] Mr. Price: Will you mark this D-60, please?

(6-page document headed "Demand Deposits," was marked Exhibit D-60 for identification.)

By Mr. Price:

Q. Mr. Adams, I show you a 6-page exhibit which has been marked D-60 and ask you what the first sheet headed "Demand Deposits I" represents.

A. This is a geographical distribution of demand-deposit accounts of individuals and the dollar amounts is shown in thousands. It is for the demand-deposit accounts of individuals with the Philadelphia National Bank and Girard Trust Corn Exchange Bank and the totals for the combined bank.

On the left-hand side of the exhibit are the geographical areas for location of depositors. The first area is Philadelphia County, the next is Bucks, Delaware, and Montgomery Counties. There is a subtotal for the four counties.

The next area is the rest of the ten-county area, that is Chester County in Pennsylvania, Mercer, Burlington, Camden, and Gloucester Counties in New Jersey, and New Castle County in Delaware.

The next is the rest of the Third Federal Reserve District, that is, the areas outside of the previous areas mentioned, and would cover approximately the eastern half [fol. 4086] of Pennsylvania, the southern half of New Jersey, and the State of Delaware.

The next area is Northeast United States outside the Third Federal Reserve District, and that would include Ohio, West Virginia, Virginia, Maryland, the District of

Columbia, the western half of Pennsylvania, the northern half of New Jersey, New York State including New York City, and all the New England states.

The next area is the rest of the United States, which is, of course, outside the previously-described northeast area; and the last area is foreign, which is outside of the United States.

There is a column for the dollar amount in thousands for location of depositors by area for Philadelphia National Bank and alongside of it a column for the percentage that the deposits in that area represent as against the total.

There is the same thing for the Girard Trust Corn Exchange and the same thing for the combined.

At the bottom is a total of the demand deposits of individuals with the respective banks, the combined total, and a percentage total adding up to 100 per cent.

Q. Now as to those under $10,000, how were they determined as to location or allocated?

A. They were determined by a sampling method with [fol. 4087] which the Justice Department is familiar. We took one out of four hundred accounts and used that as a sampling.

Q. And as to those over $10,000?

A. Over $10,000 we have taken from the actual records.

Q. By the IBM?

A. The actual records were transferred to tabulating records.

Q. Now, the second page, "Demand Deposits II," what does that represent?

A. This is a geographical distribution of the demand deposits of partnerships and corporations with the Philadelphia National Bank.

The same as the previous exhibit, where dollar amounts are expressed they are expressed in thousands.

On the left-hand side, for the same geographical areas as in the previous exhibit.

Across the top are size of deposits of partnership and corporation demand deposits, by size class, the first one being under $10,000, and then there are three more. The last one is $500,000 and over, and on the right-hand side

is a total column for the total amount of all size classes for the geographical area and the percentage.

There are totals at the bottom of each of the columns for dollars and for percentage.

[fol. 4088] Q. Now, I note that at the bottom of the page the distribution of those under $10,000 was by sample and over $10,000 by actual records?

A. Records, yes, sir.

Q. Now will you turn to the sheet headed "Demand Deposits III" and tell me what that is?

A. This exhibit is the same format as the previous II, except that it is the partnership and corporation demand deposits of the Girard Trust Corn Exchange Bank.

Q. And the next sheet, "Demand Deposits IV"?

A. IV is a combination of II and III, the only difference being that the size classes are expressed only by two, under $10,000 and $10,000 and over, instead of splitting the $10,000 and over into several size classes.

Q. And the next sheets, "Demand Deposits V" and "VI"?

A. "V" or "VI"? There's just "V" here.

Q. Well, "Demand Deposits V"?

A. "V" is a geographical distribution of both Philadelphia National Bank and Girard Trust deposits, demand deposits, of states and political subdivisions, of domestic banks, and foreign banks.

It has the same geographical area that was in the previous exhibits.

The headings under each bank are three in number—[fol. 4089] the first, state and political subdivisions; the second, domestic banks; and the third, foreign banks.

Q. And then the second sheet of "Demand Deposits V"?

A. The second sheet is a combination of the two banks, under the same general format, taking the three types.

Mr. Price: I would like to state for the record, sir, that as a matter of convenience of reference these exhibits relate to the subject matter of the Government's exhibits that have already been offered and have already been received in evidence and marked G-28, G-29, and G-30; and so far as "Demand Deposits V" is concerned, G-28-A.

The material contained in the Government's exhibits are not quite the same as those that appear here because there are different types of deposits referred to. For example,

G-29 combined Philadelphia National Bank demand deposits, with only IPC demand deposits of Girard.

But with variations which will appear from the exhibits themselves, this covers the same general area but, as I have indicated, this is more complete.

Will you mark this D-61?

(Three-page document headed "Time Deposits," was marked Exhibit D-61 for identification.)

By Mr. Price:

Q. I show you a three-page exhibit marked D-61 and ask [fol. 4090] you what that is, Mr. Adams.

A. The first page is the geographical distribution——

Q. D-61?

A. D-61, yes. The first page is a geographical distribution of Philadelphia National Bank and Girard Trust Corn Exchange Bank savings and business time deposits.

On the left-hand side are the same geographical-area locations of depositors; there are two main headings, the first, savings deposits, under which is shown a double column for Philadelphia National Bank as to amount and percentage of the various geographical areas for allocation of savings deposits; the same for Girard Trust Corn Exchange Bank; and the third column is the combined totals and a percentage for the combination of both banks by area.

On the right-hand side the main heading is, "Business Time Deposits," and we have the same general setup there —a column for amount and percentage for Philadelphia National Bank, one for Girard, and one for combined.

The two-column leads, of course, the last is the Girard combined, with the total at the bottom of each column and a percentage addition to 100 per cent.

Q. Now the next sheet, "Time Deposit II," what does that represent?

The Court: Let me see this original D-61. Will you get [fol. 4091] it from the witness and bring it over?

Go ahead, Mr. Price.

Read the last question.

(The pending question was repeated by the reporter.)

The Witness: That is a geographical source of other time deposits of the Girard Trust Corn Exchange Bank and the Philadelphia National Bank.

It has on the left-hand side the geographical areas for location of depositor. It has across the top three main headings, "Time Deposits of States and Political Subdivisions," "Deposits of Domestic Banks," and "Deposits of Foreign Banks."

It has a column for Girard Trust for an amount for each geographical location and percentage of that area as related to the total. For Philadelphia National Bank it has a similar two columns for amount and percentage; and then a third combined amount and percentage.

There is the same setup for each of the banks and combined for deposits of domestic banks and the same for deposits of foreign banks, a column for each of the banks and a combined column.

At the foot of each column is a dollar total in thousands and a percentage addition to 100 per cent.

[fol. 4092] Q. Will you turn now to the third sheet, "Time Deposits III," and tell me what that is?

A. "Time Deposits III" of the exhibit shows the growth of personal-savings deposits in the four-county area, four-county Philadelphia area, for a period December 31, 1951, to December 31, 1959. The dollar amounts are shown in thousands.

In the left-hand column it has the closing date of each year, 12-31-51, going progressively, year by year, to 12-31-59.

It has a column for the amount of personal-savings deposits of the Philadelphia National Bank for each of these years as of that date; for the Girard Trust Corn Exchange Banks for each one of the years as of the date; for the mutual-savings banks, a total of the mutual-savings banks for each year as of the end of the year; and for the savings and building and loan associations a total for them as of that date at the end of each year.

At the bottom it shows the amount of increase for each of these four columns and the percentage of the increase from 12-31-51 to 12-31-59.

Q. The last two lines below the increase 1951-59 represent what?

A. That is the amount of the increase over the period. It shows for the Philadelphia National Bank 45.1 per cent; [fols. 4093-4095] for the Girard, 44.3 per cent; for the mutual-savings banks, 76.1 per cent; and for the savings and building and loan associations, 164 per cent.

Q. Is that the increase from the 1951 total to the 1959 total?

A. Yes, sir.

The Court: It is 4 o'clock. I think we had better recess for the day.

(Recess taken at 4:00 o'clock P. M. until 10:00 o'clock A. M. on Friday, July 28, 1961.)

[fols. 4096-4097] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

Civil Action No. 29287

[Title omitted]

TWENTY-FIFTH DAY

Philadelphia, Pa., July 28, 1961

Before Hon. Thomas J. Clary, J.

* * * * * * *

[fol. 4098] JOHN P. ADAMS, resumed.

Direct examination. (Continued)

Mr. Price: At the end of the day yesterday we were speaking about D-61, and for the record I would like to note that "Time Deposits I," which is a part of D-61, corresponds with Government Exhibit G-15 and G-31; "Time Deposits II," there isn't a precisely comparable exhibit,

but some of the figures on G-15 are similar; and there is nothing comparable to "Time Deposits III."

(Document headed "All Time and Demand Deposits of Individuals, Partnerships and Corporations, Combined Share of Philadelphia National and Girard" was marked Exhibit D-62 for identification.)

Q. Mr. Adams, I show you a one-page exhibit marked D-62 and ask you what that is.

A. This is a comparison of the combined share of Philadelphia National Bank and Girard Trust Corn Exchange Bank of all time and demand deposits of individuals, partnerships, and corporations, compared with first demand deposits of all commercial banks with headquarters in Philadelphia County, secondly the four-county area, and, third, comparison in the ten-county area.

The second comparison is with time deposits of all com-[fol. 4099] mercial banks with headquarters in the three areas I have just mentioned.

The third comparison is with deposits of mutual savings banks with headquarters in the three areas.

With deposits of savings and loan associations and building and loan associations with headquarters in the three areas mentioned, and with members shares of credit unions with headquarters in the three areas.

There is a subtotal under the first three categories and a total under the five categories for comparison.

At the bottom there is the dollar amount of time and demand deposits combined of Philadelphia National and Girard, and below it the percentage comparison of that figure with all commercial and mutual banks in the three areas, and with all institutions in the three areas.

Q. Footnote 2, the blank there should be Defendant's Exhibit 32?

A. D-32.

Q. This comparison at the bottom, the percentages, will [fol. 4100] you describe that, please.

A. It shows that the time and demand deposits combined of Philadelphia National and Girard in Philadelphia County compare with the three classifications mentioned, demand deposits, time deposits of all commercial banks,

and deposits of mutual savings banks, in relation of 23 per cent of the total.

Q. So that that figure of $1,182,829 of the Philadelphia National and Girard is 23 per cent of the $5,055,711?

A. That is right.

Q. And 20 per cent of the $5,961,639?

A. That is right, and then it follows across that in the four-county area it is 22 per cent with all commercial and mutual banks and 18 per cent with all institutions.

In the ten-county area the comparison is 17 per cent with all commercial and mutual banks and 14 per cent with all institutions.

(Documents headed "Commercial and Industrial Loans," was marked Exhibit D-63 for identification.)

By Mr. Price:

Q. Mr. Adams, I show you a three-page exhibit marked D-63 and ask you what that is.

[fol. 4101] A. The first page of D-63 is a geographical distribution of the commercial and industrial loans of the Philadelphia National Bank. On the left-hand side are the same geographical areas we have had in previous exhibits. Across the top we have size classes of loans, starting out with under $50,000, then there are three more that run $50,000 to $99,999, and three different classifications divided by that total spread, and then the last one is over $1 million, and on the right-hand side there is a total of all the geographical areas for all the size classes. There is a total, and all amounts are in thousands on this exhibit. There is a total for each category and a percentage added up to 100 per cent, and a grand total added up at the end in the last column.

Q. And the second page is headed "Commercial and Industrial Loans II"?

A. The second page is a similar exhibit. This is for the commercial and industrial loans of geographical source of the Girard Trust Corn Exchange Bank.

Q. Set up the same way as the preceding page?

A. Yes, sir.

Q. And the third page is "Commercial and Industrial [fol. 4102] Loans III"?

A. The third page is a combination of the information set forth on the first two pages, combining the two banks.

Mr. Price: For the record, the first page of this Exhibit D-63, Commercial and Industrial Loans I, relates to the data which is given in part in Government's Exhibits G-19, G-22, and G-21. They cover portions of the same area, not completely.

As to Commercial and Industrial Loans II, that corresponds to Government's Exhibits G-19, G-23, and G-20, but they are only partially covered.

Commercial and Industrial Loans III—G-24 purports to combine G-22 and G-23, but the figures are not accurate. G-17 and G-18 likewise might be considered in connection with our Exhibit Commercial and Industrial Loans III.

(Document headed "Real Estate Loans" was marked Exhibit D-64 for identification.)

Q. Mr. Adams, I show you a single sheet marked D-64 and ask you what that is.

A. D-64 is the geographical distribution of real estate loans of the Philadelphia National Bank and the Girard [fol. 4103] Trust Corn Exchange Bank, and also shows the combination of the figures for both banks. The exhibit is set forth with the same geographical areas as in the previous exhibits and generally the same format. The totals at the bottoms of all columns is divided into two columns under each bank, one column for loans under $50,000 and the other column for loans over $50,000, and amounts are set forth in thousands under these columns.

Mr. Price: For the record, the Real Estate Loans I on this exhibit should be read in connection with or compared with Government's Exhibits marked G-20, G-21, G-25, G-26, and G-27.

(Document headed "Real Estate Loans, Comparison of Defendants With Certain Other Competing Institutions," was marked Exhibit D-65 for identification.)

Q. I show you an eight-page exhibit marked D-65 and ask you what that represents.

A. D-65 shows a comparison of the real estate loans of the combined Philadelphia National and Girard Trust Corn

Exchange Bank with certain other competing institutions in three areas, Philadelphia County, in the four-county area, and in the ten-county area. The comparisons that are made are listed on the left-hand side of the exhibit, [fol. 4104] the first one being commercial banks with headquarters in the three areas I have mentioned; with mutual savings banks with headquarters in the three areas; with savings and loan and building and loan associations with headquarters in the three areas; with three insurance companies with headquarters in the area; and then there is another category stated as outside institutional lenders including pension and profit-sharing funds, serviced by at least 17 local mortgage service agencies.

There are no figures in for this particular category.

There is a subsequent schedule attached. It has the number of these institutions in the respective three areas and the aggregate amount of the loans expressed in thousands of dollars.

At the bottom it has the combined total of Philadelphia National-Girard real estate loans, and in parentheses for each category is the percentage that the combined Philadelphia-Girard loans represent as against the aggregate amount of the figures in each one of the three categories.

Q. Then the total aggregate amount of real estate loans [fol. 4105] of the Girard-Philadelphia National Bank combined are 3.2 per cent of the total real estate loans of other commercial banks with headquarters in Philadelphia, of the mutual savings banks in Philadelphia, savings and loan and building and loar associations with headquarters there, and of these three insurance companies which have headquarters in Philadelphia, but so far as the insurance companies are concerned, it was impossible to determine where the real estate comprising the security for their loans actually was located?

A. That is correct.

Q. But they are the companies that are in active operation in Philadelphia in the real estate loan business?

A. They are three prominent local insurance companies.

Q. Then Schedule A attached to this exhibit is what?

A. Schedule A sets forth the real estate loans of mutual savings banks in thousands of dollars. It has the name of the four mutual savings banks in Philadelphia County

and the one mutual savings bank in Chester County. There is a subtotal for the Philadelphia County and a grand total for both counties.

Q. That is a breakdown of the figures appearing on line 2 of the first sheet?

[fol. 4106] A. That is right. In the footnote it is indicated as 2.

Q. And then Schedule B represents what?

A. Schedule B represents real estate loans of savings and loan and building and loan associations where dollar amounts expressed are in thousands. It shows the number of institutions in each of the four counties—Philadelphia, Bucks; Delaware, and Montgomery—with the total outstandings. There are subtotals for the number of institutions and the amount of outstandings, and then it shows the number of institutions and the amounts for Chester County in Pennsylvania, for Mercer, Camden, Burlington, and Gloucester, New Jersey; and New Castle County in Delaware.

Q. That is a breakdown of the figures that appear in line 3 of the first sheet?

A. That is right.

Q. Then Schedule C.

A. Schedule C shows the three insurance companies with headquarters in Philadelphia, with a total of all their real estate loans.

Q. There are other insurance companies in Philadelphia besides those for which figures were shown?

A. There is listed in Schedule C other such companies [fol. 4107] with offices in the Philadelphia area, with the name of the company and its street address.

Q. And the number of those on that list which have offices there have headquarters in the Philadelphia area also, have they not?

A. Yes, there are some who have headquarters here.

Q. Not all of them, but some.

By the Court:

Q. For instance, who has headquarters in Philadelphia?

A. Philadelphia Life Insurance Company.

Mr. Price: Philadelphia Life Insurance Company, Life

Insurance Company of North America, Pennsylvania Life Insurance Company, Quaker City Life Insurance Company.

The Court: All right.

By Mr. Price:

Q. Then Schedule D lists what?

A. Schedule D lists some of the prominent mortgage service companies in the Philadelphia area, with the name of the company and its street address.

Then II, under Schedule D, are some of the prominent real estate firms in the Philadelphia area with substantial mortgage activity. It lists the names of the firms and [fol. 4108] their street addresses.

Q. Number III.

A. III are some of the pension and profit-sharing funds which make mortgage loans in the Philadelphia area. It shows the name of the pension and profit-sharing fund and its address.

By the Court:

Q. What is your source of information for that?

A. The source of information, Your Honor, was, I directed the head of our Real Estate Division to make this study, and he has been in the real estate business for many, many years, and is completely familiar with all the avenues of mortgage financing.

By Mr. Price:

Q. So this shows the companies and individuals and others that are in the business of getting real estate loans, who have headquarters in the Philadelphia area or offices here?

A. That is right.

Mr. Price: For the record, there is no comparable exhibit of the Government on this point.

(Document headed "Loans to Individuals Geographical Distribution of Girard Trust Corn Exchange Bank's Loans [fol. 4109] to Individuals" was marked Exhibit D-66 for identification.)

Q. Mr. Adams, I show you an eight-page exhibit marked D-66 and ask you what this is.

A. The first page of Exhibit D-66 is the geographical distribution of Girard Trust Corn Exchange loans to individuals, broken down by the geographical areas similar to the previous exhibit. There are two major columns as to type of loan. The first, Consumer Credit and Other Installment Loans, and the second, Single Payment Loans to Individuals. There is a third column totalling the two main columns. There is a total at the bottom of each column for dollars in thousands of dollars and a total of 100 per cent where there is a percentage column.

Q. What is the second sheet, Loans to Individuals II.

A. The second sheet is a similar exhibit for the Philadelphia National Bank's loans to individuals. There is one difference in these two exhibits. There is, if you will notice, below the total of the four counties, there is the rest of the ten-county area, which is similar to the previous exhibits, and then it has one more category "Outside 10-County Area," in which everything was put into that, [fol. 4110] which would be equivalent to the rest of the Third Federal Reserve District for conservative purposes.

Q. Philadelphia National Bank's records were not broken down the way they were for the Girard?

A. It is possible to locate the borrower, Mr. Price. It was just that this is the way it was done to make a conservative estimate.

Q. The next is Loans to Individuals III.

A. This is a combination of the previous two exhibits, but as I have already mentioned, the amount shown under the geographical distribution of outside the ten-county area for the Philadelphia National Bank is put in the most conservative geographical area for distribution purposes —Rest of Third Federal Reserve District on Loans to Individuals III.

Q. The next sheet, Loans to Individuals IV.

A. Loans to Individuals V are Institutions Other Than Commercial Banks Engaged In Making Consumer Credit and Other Loans to Individuals, the first category being Credit Unions. This shows the number of institutions and the aggregate loans outstanding of state-chartered credit unions in Pennsylvania, Federal-chartered credit unions in

[fol. 4111] Pennsylvania, state-chartered credit unions in New Jersey, Federal-chartered credit unions in New Jersey, and Federal-chartered credit unions in Delaware. It totals the number of institutions and the aggregate loans outstanding. There are footnotes here to explain the source and additional footnotes in one of certain limited specific information we were able to obtain.

Q. The statewide figures were used because it wasn't possible to get a smaller breakdown for credit unions; isn't that so?

A. That is right, except where it is noted in Note 1. I believe that there are 40 such unions in Bucks, Chester, Montgomery, Delaware, and Philadelphia Counties.

Q. Yes, but the statewide figures are shown in the upper portion of this sheet?

A. That is correct.

Q. And the notes show what might be estimated for smaller areas based on total number of counties?

A. That is right.

Q. You referred to credit unions. The next is small loan companies, on the next page.

A. The small loan companies, it shows the number of [fol. 4112] institutions and the aggregate loans outstanding of such companies in Philadelphia, Bucks, Delaware, Montgomery, and Chester Counties in Pennsylvania; Mercer, Camden, Gloucester, Burlington Counties in New Jersey; and the State of Delaware. It shows the totals for the number of institutions and the aggregate loans outstanding.

C is Consumer Discount Companies, loans of such companies in Philadelphia, Bucks, Delaware, Montgomery and Chester Counties, with the total number and the aggregate loans outstanding, with notes as to the source of the information.

Q. Then it was possible to get the loans outstanding in the counties for those two classes?

A. Except for Delaware. On this particular category, New Jersey and Pennsylvania keep them by counties.

Q. The next page.

A. D are Sales Finance Companies with headquarters in the Philadelphia area. It has the name and location of these sales finance companies and their outstanding

receivables as of the date stated in parentheses alongside of each amount. It is assumed that these companies having headquarters in the Philadelphia area do a substantial [fol. 4113] percentage of this business in the Philadelphia area.

Q. Then the additional sales finance companies.

A. Under 2 it shows the names and locations, the outstanding receivables, of additional sales finance companies, with offices in the Philadelphia area with outstanding receivables, and the reporting date in parentheses alongside the amount. This is to indicate the size and character of the companies with which we are in competition in this area of business.

Q. What is No. 3?

A. In No. 3 are listed just the names and addresses of additional sales finance companies with offices in the Philadelphia area for which figures are not available.

Mr. Price: Now, for the record, Loans to Individuals I, sheet No. 1 of D-66, relates to the subject matter of Government's Exhibits 26 and 20.

Loans to Individuals II relates to the subject matter of G-21 and G-25.

Loans to Individuals III, the combination, relates to Exhibit G-27.

There is no comparable Government Exhibit relating to Loans to Individuals IV.

[fol. 4114] By Mr. Price:

Q. Mr. Adams, I show you a three-page exhibit marked D-67, and ask you what that is.

(Three-page document entitled "Other Loans," was marked Exhibit D-67 for identification.)

The Witness: D-67 is the geographical distribution of loans to financial institutions, to purchase and carry securities, to farmers, and miscellaneous loans, generally known as other loans, which is used as a heading.

It shows on the left-hand side the geographical areas as in the previous exhibit, and when I say that, Mr. Price, I mean it is not the one for the consumer credit for Philadelphia National, but all the other geographical areas shown.

Across the top are the types of loans, with a dollar amount and a percentage allocation for the particular geographical area. The dollars are expressed in thousands. There are totals at the bottom for dollars and totals for percentage.

The categories across the top are loans to domestic banks, loans to foreign banks, loans to other financial institutions, loans to purchase or carry securities, loans to farmers, and miscellaneous loans.

Q. And the second sheet of D-67, "Other Loans II," is what?

[fol. 4115] A. The second sheet is a similar exhibit for the same type of loans of the Philadelphia National Bank.

Q. "Other Loans III," the third page?

A. III is a combination of the two banks for the same types of loans.

Mr. Price: For the record, D-67 relates to the subject matter of G-26 for the heading "Other Loans I," G-25 for "Other Loans II," and G-27 for "Other Loans III."

By Mr. Price:

Q. Mr. Adams, I show you a one-page exhibit marked D-68 and ask you what that is.

(Document entitled "Lines of Credit," was marked Exhibit D-68 for identification.)

The Witness: D-68 is the geographical distribution of the lines of credit of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank and the combined lines of credit for the two banks by location of customer, the geographical areas being shown on the left-hand side; and they are the same as in the previous exhibits.

Mr. Price: For the record, that relates to the subject matter of Government's Exhibits G-17, G-18, G-20, and G-21.

By Mr. Price:

Q. Mr. Adams, I show you an eleven-page exhibit [fol. 4116] marked D-69 and ask you what that represents.

(11-page exhibit headed "Personal Trusts," was marked Exhibit D-69 for identification.)

The Witness: D-69 is the distribution of estates between individual and corporate executors for Philadelphia County, for estates of $50,000 and over during the period 1957 through 1959, both inclusive, setting forth the categories of individual executorships, corporate executorships, and intestacies, with the number of these to the percentage of the total of each class related to the total number, the amount, and the same percentage distribution according to the three classifications by amount in relation to the total.

In B, this table sets forth such distribution for estates of $100,000 and over in Philadelphia County during the period 1956 through 1959, both inclusive. It is the same format as the table shown in A.

Q. The second page of that exhibit is what?

A. The second page is companies, the value of whose personal-trust assets has been ascertained. They are trust companies in the Philadelphia area.

It gives the location of the main office, by location of the main office. It sets forth Pennsylvania, the trust companies in Philadelphia County, with an approximate ag- [fol. 4117] gregate value of personal-trust assets; and it shows Bucks County, Chester County, Montgomery County, and New Jersey, Burlington County, Gloucester County, and Mercer County.

It has the total at the bottom of the next page that gives the aggregate total of all the amounts set forth above.

Q. That is the aggregate of the trust funds that are held by those institutions according to their records?

A. Their personal-trust assets.

Q. Yes.

Then the next page headed "B"?

A. B lists other trust companies in the Philadelphia area, the value of whose personal-trust assets can not be ascertained by location, location being the same general type of breakdown as in the previous exhibits where we do have totals.

It shows the companies we know to be in the trust business, but we could not obtain the figures which we were able to obtain for the previous exhibit.

Q. The other figures were obtained from regular public sources, were they not?

A. Yes, sir. There is indicated alongside of each one a key which refers to the source at the bottom of II A.

Q. Yes.

[fol. 4118] Now, the sheet headed III, what does that represent?

A. III is the geographical source of Girard Trust Corn Exchange Bank's personal-trust business by number of accounts.

It shows an area distribution on the left-hand side of the page. It takes several pages to cover this, showing the ten-county area, the five counties in Pennsylvania that we referred to, the five counties in New Jersey, and New Castle County in Delaware.

It totals that and then it goes to the United States outside the ten-county area, taking the parts of the states that are not included in the ten-county area, with a total for that.

Then there is a category for foreign and a grand total of each type of personal-trust account across the top; and then there are subtotals for the geographical areas for each type and the grand total at the bottom for each type, and the aggregate dollar value, which is expressed in thousands for each type.

Q. Then, continuing on to the next page:

A. Next is a similar format for reporting the kind of information just described for the Philadelphia National Bank's personal trust business by geographical source and by number of accounts.

[fol. 4119] Q. Of the type of the accounts indicated at the top?

A. Yes, sir.

Mr. Price: For the record, there is no comparable Government exhibit for "Personal Trusts I." For "Personal Trusts II" G-33 covers that; and for "Personal Trusts III," the Government had an Exhibit G-41 which gave a count of dollars but no geographical breakdown of trust funds; but those two exhibits might be read in connection

with this "Personal Trusts II" and "Personal Trusts III."

Mr. Price: Off the record.

(Discussion off the record.)

Mr. Price: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Adams, is G-57 the first exhibit that you testified about?

A. I don't have any of those numbers here, Mr. Reycraft.

Mr. Price: 56, I think.

By Mr. Reycraft:

Q. 56, was it?

A. Yes—now, wait a minute. There was one before that. There was a branch sample.

The Court: What was the first one you said?

Mr. Reycraft: 56, sir.

[fol. 4120] The Witness: I remember one thing before the one he showed me, Your Honor. I think it was a branch sample. 56, I guess, was the number.

By the Court:

Q. Did you have anything to do with that one?

A. No, sir.

The Court: That is 55, so I think 56 starts it off correctly.

By Mr. Reycraft:

Q. Mr. Adams, with reference to D-62, the totals are a combination, are they, of time, demand, and savings deposits?

A. I don't have a copy.

Time and demand deposits of both banks. This is demand; this is time.

Mr. Price: Would you speak louder, Mr. Adams? I can't hear you.

The Witness: I am very sorry.

Mr. Reycraft, I believe, wanted to know whether it was the combined time and demand deposits. The answer is "yes."

By Mr. Reycraft:

Q. So that in some categories you have demand deposits, in others, time, and in others, savings?

A. Well, time and savings are generally the same cate-
[fol. 4121] gory, but that's substantially correct.

Mr. Price: This is the only exhibit where that combination is indicated.

Mr. Reycraft: Yes.

By Mr. Reycraft:

Q. There are substantial differences between time and demand deposits, of course.

A. Well, categorically speaking, but there is flow between them by customers taking money out of demand deposits and putting it in time, and taking it out of time and putting it in demand; so they are not strictly categorical.

Q. As far as demand deposits, of course, only commercial banks would have demand deposits?

A. That's my understanding.

Q. And for D-63 the percentages which are shown are the percentages of the dollar amounts of the loans and not percentages of the number of loans; isn't that correct?

A. D-63 are dollars.

Q. And I believe the percentages by number are shown in other exhibits in the record.

And that would be true also of D-64, real-estate loans, where the breakdowns are by dollar amounts and not by number; and I might say for the record that the distribution by number, I believe, is shown in Government ex-
[fol. 4122] hibits.

A. D-64, real-estate loans are shown in dollar amount.

Q. Yes, and you didn't make a breakdown by number?

A. No, sir. This exhibit deals with dollar amounts.

Q. And with reference to D-65, the companies shown in Schedules C and D, did I understand you to say that those companies were identified by a member of your staff?

A. Yes, sir.

Q. They are not derived from any published source which you can refer to?

A. Well, if you will note, the first three, Mr. Reycraft, the source is the annual statements of the three large insurance companies.

Q. Yes.

A. The others, I guess there were a number of sources to which he referred because of his many years' familiarity in the business.

Q. All right. One of your associates did that.

The percentages in D-66 are also by dollar amount rather than by number, and I assume you did not compute the distribution by number of loans?

A. No. The number only was related to the samples under $50,000 and then converted back into dollars, so the exhibit itself is in dollars.

[fol. 4123] Q. With reference to IV of D-66, will you refer to Footnote 1?

A. I have it.

Q. Can you tell me why you have included Chester with Bucks, Delaware, Montgomery, and Philadelphia Counties?

A. Well, the reason there was that I guess we were dealing with the five counties in the so-called ten-county area that are in Pennsylvania.

Q. There are the five of your ten-county area which are in Pennsylvania?

A. Yes.

Q. Did you have the figures for the four-county area?

A. I do not recall whether it was broken down that way or not, Mr. Reycraft.

Q. And the number of state-chartered credit unions which are referred to in IV are for the whole State of Pennsylvania; isn't that right, the 125 figure?

A. Yes.

Q. And the federals also; that is for the whole State of Pennsylvania?

A. Yes, sir.

Q. And the same for the figures of New Jersey and Delaware; they are for the whole states?

A. That is right.

Q. And at least as far as you know you don't have any [fol. 4124] figures on the amount of business any of them do in the four-county area?

A. No, I do not know what they do.

Q. And the sources of these figures are for the years 1958 and 1959 for the most part?

A. Yes, except for—I think we have one 12-31-60. The rest of them are before that.

Q. And on the next page, IV B and C, you included Chester for the same reason as you have already stated?

A. Yes. Under B it shows the ten-county area broken down into three groups by states, and under C it has the five counties in Pennsylvania because under C th ly information we set forth is from Pennsylvania.

Q. Do you have any information as to how muc i- ness the companies in the five counties in New Jers do in Philadelphia?

A. I do not know that we have that information.

The Court: We will take a ten-minute recess, gentlemen.

I may be a little late; I have to go down to see Judge Ganey for a few minutes.

(A recess was had.)

[fol. 4125] The Court: We had to swear in Judge Gleason's son on his admission to the Bar.

Mr. Price: Sir, my next witness has a very important engagement, and if Mr. Reveraft will agree that I may withdraw Mr. Adams, and with the Court's permission, I would like to put him on and resume Mr. Adams later.

The Court: Surely.

Mr. Price: Mr. Bradshaw.

T. F. BRADSHAW, having been duly sworn, was examined and testified as follows:

Direct examination.

By Mr. Price:

Q. Mr. Bradshaw, you are the financial vice-president of the Atlantic Refining Company, are you not?

A. Yes, sir.

Q. And have been since when?

A. 1958.

Q. What other activities are you engaged in in Philadelphia in addition to those with the company?

A. In Philadelphia?

Q. Yes.

[fol. 4126] A. I am a director of the First Pennsylvania Company and president of the Chamber of Commerce of Philadelphia, a director of the Philadelphia Industrial Development Corporation and a member of their executive committee; United Fund trustee, and a few other things of that nature.

Q. Mr. Bradshaw, will you tell us a little about the Atlantic Refining Company, with particular reference to its financial situation, the needs?

First, could you give me the operating income? Has it changed materially in the last ten years?

A. The operating income, that is, the net income after taxes, in 1960 was $46.5 million.

It has changed. It has fluctuated, unfortunately, below that in the three previous years. In 1956 it was about at that level or a little bit higher.

Q. It has current assets now of about what, approximately?

A. Total assets?

Q. Yes.

A. Total assets at the end of 1960 were $820 million. This represents a rather—is a good deal larger than it has been. It represents a rather sustained growth over the past ten years. I think it has about doubled in ten years, rising, I think, exactly about 90 per cent in ten years.

Q. What is the debt of the company, the long-term debt?

[fol. 4127] A. The long-term debt is now about $175 million.

Q. Has it any bank loans or short-term debt outstanding?

A. At the moment there is no short-term debt outstanding, with the exception of a very small loan in the name of the Atlantic Pipeline Company, one of our subsidiaries.

Q. What, approximately, is the amount of cash that the company keeps on hand and is that invested in any short-term securities?

A. We keep about $20 million in cash, $20 million to $25 million in cash.

Q. Is that on deposit in banks?

A. Under normal circumstances, about $10 million, about $10 million to $12 million would be on deposit in banks.

Q. And how is the other held?

A. The other would be held in short-term securities.

Q. Of what nature?

A. Government securities generally, highly liquid.

Q. Any commercial paper?

A. And some commercial paper.

Q. How does the company meet its normal borrowing needs and what are those needs?

A. Well, there are basically two kinds of needs in so far as commercial banks are concerned. One is a normal seasonal, which is present in every oil company. Every [fol. 4128] oil company has to build up its inventories of heating oils during the summer season and sell them off in the winter. That means, of course, building up loans and then liquidating those loans in the winter season. That is a perfectly normal type of seasonal loan.

I'd say that under normal circumstances we would build up $10 million to $15 million in that kind of short-term loan.

Now, in addition to that there are needs brought about by special rather large kinds of situations. For instance, in 1956 we purchased the assets of the Houston Oil Company. This meant that we had to borrow from commercial banks $65 million. Now, this, of course, was in anticipation of permanent financing somewhat further down the road but that short-term loan was outstanding almost a year, a bit more than a year, I believe, before the time

was appropriate for long-term financing. Now, that kind of a deal, although perhaps not quite so large as that, is in the works at all times.

The company, for instance, bid on the uranium off-shore concessions in 1958 and did not get it. We bid on the Kuwait off-shore concession last year and did not get it; and more recently we bid on the Honolulu Oil Corporation assets and did not get that, either.

[fol. 4129] However, any one of those would have required a substantial amount of short-term borrowing at a moment's notice.

Q. And by "substantial," roughly, what range?

A. $40 million to $80 million.

Q. Has the company any lines of credit outstanding with any banks?

A. We don't have formal lines of credit. We have understandings with banks, I'd say. We have built up relationships over a long period of years with banks and I don't think we have on file any specific lines of credit letters or anything of that sort.

Q. What are those banks with whom or with which you do business?

A. In Philadelphia we do business with the First Pennsylvania Company, which is our work-horse bank, or working-account bank; and then in New York we do business with three banks—the Chase-Manhattan, the First National City and the Morgan Guaranty.

Q. How long has that relationship existed?

A. A very long time in all instances. In the case of the First Pennsylvania Company, the relationship stemmed from a relationship with the predecessor bank or one of the banks, which was the First National Bank, which is [fol. 4130] now a part of the First Pennsylvania Company.

With the other three banks, I would say that relationship goes back to the 1920's at least, possibly beyond that.

Q. Is the Pennsylvania Company the only company with which you do business in Philadelphia?

A. Substantially, yes. We have small business, a small amount of business with the Philadelphia National and

the Fidelity handles a small amount of custodian work, but basically it is the First Pennsylvania Company.

Q. Do the other banks do any lending?

A. No, sir.

Q. No borrowing from them?

A. No.

Q. But you do from the Pennsylvania Company?

A. Yes.

Q. And the other three banks in New York?

A. Yes, sir.

Q. Are those the ones that you maintain substantial deposits with?

A. We maintain deposits in the three New York banks of $2 million to $3 million generally at all times, and the deposit in the First Pennsylvania Company varies between $2 to $10 million because it is a working account.

[fol. 4131] Q. How do you handle borrowings when you need money?

A. Well, fortunately, it is a matter just of picking up the phone and calling the appropriate officers in each of the banks. They are close enough to what we are doing, and, of course, they are close enough to our particular financial situation so that we have this kind of a relationship.

Q. How much do you borrow from the Pennsylvania Company when you have occasion to make a loan? Do you get as much as you can from the Pennsylvania Company or how is that handled?

A. When we have need for loans, either the buildup of seasonal loans or some special type loan—and the two may be working together at the same time, of course—we borrow from each of the four banks equally until we reach the lending limit of the Pennsylvania Company, and then we divide the loans equally among the three New York banks.

Q. You have no other borrowings from any Philadelphia bank?

A. No, sir.

Q. Why did you establish the relationships with New [fol. 4132] York rather than Philadelphia?

A. Well——

Q. Perhaps I shouldn't ask you why you established it. You weren't there. Why do you maintain it?

A. Because our needs are very large. The lending capacity of the Chase Bank, for instance, is $62 million, which I imagine is almost twice the lending limit of the entire financial structure of Philadelphia. I don't think that we could even get together. There is no way of combining perhaps all the banks in Philadelphia and arranging for the amount of loans that we would need at any one time, and, of course, that would be an administratively impossible task.

Q. Have you obtained any other services from the New York banks that are now available that are unavailable in Philadelphia?

A. Yes, indeed. By virtue of their size, of course, the New York banks are able to provide services that are very essential to us and somewhat unique, I imagine, among banks. Both the Chase and the First National City, for instance, have petroleum departments which have petroleum engineers, petroleum economists. These are extremely helpful in any kind of oil financing. These people are [fol. 4133] well respected experts whose opinions are accepted by most oil people.

In addition, both those banks and, of course, the Morgan Guaranty also, have extensive foreign operations, and there they are most helpful to us. We are engaged in foreign activities, and we are constantly looking at new foreign areas, and whether the area be the Spanish Sahara or Argentina or Australia, we can go to one of those banks and very quickly get a picture of the financial or the economic situation of the country, the political situation. We can arrange for contacts with banks in those countries. We can arrange for letters of credit, and again by phone or by a quick visit to New York.

Q. Is there any bank in Philadelphia that has such service or comparable service?

A. I don't believe that there is any bank in Philadelphia that has a petroleum service of that nature. I am sure that there are several banks in Philadelphia that have foreign service, certainly not to the extent that those banks have, certainly not to the depth.

Q. Have you ever called upon the Philadelphia National Bank for foreign service?

A. We have called upon the Philadelphia National Bank [fol. 4134] for purchase of foreign exchange but not for foreign advice.

Q. These advantages that you get from the New York banks from these persons that are available, the experts, the various people, do you pay any special fee for the use of that service, or does that come as part of your deposit relationship?

A. I think that is very definitely a part of a long-term relationship and the fact that we keep deposits with those banks even when we are not borrowing, of course, from those banks. We, for instance, have not borrowed since March of this year and probably will not be borrowing until perhaps September, and during this period of time we have maintained balances of two to three million dollars in each one of those banks.

Q. What other services are rendered by the New York banks? Who is the registrar of your stock, for example, or transfer agent?

A. The registrar of the common stock is the Chemical of New York Trust, and the transfer agent is the Chase for the common stock.

Q. Is there a trustee of any security issue?

A. For each of the bonds a New York bank is trustee, each of the bond issues, a different New York bank for each one, but they are New York banks.

[fol. 4135] Q. And the only services that you get from Philadelphia are from the Pennsylvania Company and in connection with the pension trust from Fidelity?

A. The custodian of our retirement fund securities is the Fidelity.

Q. Is there any other bank in Philadelphia that is large enough to attract you either as a prospective depositor or borrower?

A. I don't think so.

Q. You have heard, I suppose, of this proposed merger of the Girard and Philadelphia National, which would produce a bank with a lending limit of $15 million. Would such a bank be large enough to supply some of your needs or attract you for some business?

A. We think so.

Q. What can you say about that and the effect of the difference in size on your possible use of that facility?

A. Well, our financial objectives, of course, are to maintain the greatest flexibility in terms of ability to borrow, together with the minimum deposit, which is the cost, basically, minimum deposits, and, of course, minimum administrative headache involved. This means that we should maintain relationships with a sufficient number of banks to meet our needs, but not too many, and we feel that the present grouping of one Philadelphia bank, which [fol. 4136] is our workhorse bank, and the three New York banks, meets our needs.

However, the company is growing very rapidly, and we think over the next several years we will have need for more banking relationships and more ability to borrow perhaps from banks. We would like, of course, to have one of those banks be in Philadelphia.

Q. And would a bank with a $15 million limit, such as this proposed merged bank, be large enough to be attractive to you?

A. I think so, I think so, because in the past our maximum borrowing, which was just for a one-year period, short-term borrowing, was, I believe, $70 million, and that is rather unusual, and I think that our borrowing is apt to settle, even for unusual items, at a somewhat lower figure, and I think a bank with a $15 million loan limit could be very helpful in a situation like that. A bank with a loan limit of that size would be worth the administrative problem, let us say, of developing the relationship.

I have perhaps not emphasized the fact that we are very close to these four banks. They know us very well and we know them very well, and it takes a good deal of time, and we think that to add another bank to that grouping, that bank must have a lending limit sufficient to offset the cost of the time and effort, certainly, that is involved in [fol. 4137] developing this kind of relationship.

Q. To make it what you would consider worthwhile devoting that effort?

A. Make it worthwhile, that is right.

Q. The principal office of the Atlantic Refining Company is in Philadelphia, is it not?

A. Yes, sir.

Q. And has been for a long time?

A. I think probably back to 1870.

Q. You have had experience and the opportunity to observe businesses in Philadelphia. Will you give us your opinion as to whether you think Philadelphia needs a larger bank than it presently has?

A. Well, I think the very fact that—certainly speaking for my company and I know for many others—that they have to go to New York for a good deal of their financial service, I think this is a fact that we would start with. It seems to me that if Philadelphia is to grow industrially, and I am sure it is, that an essential part of that must be the banking service to support that growth, and although that banking service can be obtained from New York today, I think it would be a far healthier situation if more of it could be obtained from Philadelphia.

Q. Do you consider that such a bank is needed by indus- [fol. 4138] try in Philadelphia?

A. I would think so. I would think from our point of view, as we grow in the future, if such a bank were in existence, we would like to consider it available for our use.

Q. Why would you prefer another Philadelphia bank rather than having another New York bank or simply increasing the commitments you would have to the existing New York banks?

A. Well, I was going to answer your question by saying it is a matter of developing relationships, and developing relationships is easier in the same city. That is only part of the answer, because we could presumably obtain our needs from the three banks where we now get them. However, I think there comes a time in the growth of a company when it must spread out its banks, and the time I think is fairly rapidly coming for our company when just in terms of diversifying our banks, we have got to spread our borrowing.

Q. And without a larger bank in Philadelphia, would that be done in Philadelphia or New York?

A. Without a larger bank in Philadelphia I think the answer is we would quite definitely go to New York.

Q. Are you presently solicited by New York banks for your business?

A. Yes, indeed.

Q. Frequently or occasionally?

[fol. 4139] A. Too frequently.

Q. And are they from one or more banks in New York?

A. They are from many banks in New York, many banks.

Q. Are you solicited by banks in cities other than New York?

A. We are solicited by banks from all over the country —Chicago, Denver, Dallas, Atlanta, all over.

Q. You said that you would like, with the prospects for expansion of your company in the future, to take on another bank, preferably in Philadelphia, as a matter of convenience, but if there isn't a big enough one you would go to New York. Would that have any effect on your relationship with the Pennsylvania Company?

A. I don't think so. We now borrow from the Pennsylvania Company up to the limit of its loan limit. We would continue to do that.

Q. So that this would take care of your additional needs and not have any adverse effect on your present banking relationship in Philadelphia?

A. Right.

Mr. Price: Cross-examine.

Cross-examination.

By Mr. Reycraft:

Q. Mr. Bradshaw, your counsel furnished to us schedules [fol. 4140] of your deposits and loans from all of your banks, which I would like to have marked for identification.

(Schedule of Deposits and Loans of Atlantic Refining Company was marked Exhibit G-251 for identification.)

By Mr. Reycraft:

Q. Mr. Bradshaw, can you tell me what the largest loan is that you had from a Philadelphia bank in the last five years?

A. I think it is the $5 million from the First Pennsylvania Company in 1956.

Q. What is the largest single loan you have had in any bank?

A. $20 million.

Q. And a loan of that type would be beyond the lending limit of the proposed combined bank; is that right?

A. No, sir.

Q. I might say the lending limit of the combined Philadelphia National and Girard would be $15 million if they were merged.

A. Yes.

Q. So a $20 million loan would be in excess of that lending limit?

A. Yes, sir.

Q. So you would have to go to other banks for a loan of that type?

[fol. 4141] A. We would have to go to the present banks with which we have the relationships.

Q. Isn't it a fact that your company has had relationships with the Chase and the First National City almost since the beginning of this century?

A. Yes.

Q. Probably since the beginning of the century; isn't that right?

A. Yes, I think so.

Q. And the relationships that you have indicated are of long standing and not easily broken and you have no intention of changing that relationship?

A. No, sir.

Q. And it is true also, isn't it, that both the Chase and the First National City have been dealing with oil companies other than yours since about the same time?

A. Yes, sir.

Q. And that they have oil departments which are probably unique in the country?

A. Yes, sir.

Q. Do you think there is any real possibility within the foreseeable future that the combined bank here could de-

velop an oil department of the capacity of the oil departments of either of those two banks?

[fol. 4142] A. I would doubt it.

Q. And for the foreseeable future don't you envision that you will continue to rely on the Chase and the First National City for the same type of oil advice as you have been obtaining in the past?

A. Yes, sir.

Q. The exhibit which has been marked for identification indicates, as far as I can tell, three loans in the amount of $20 million that your company has made in the last five years, and beyond that the next largest would be I believe $5 million; is that correct, do you believe?

A. $5 million from any one bank or one time? I am sorry; I don't quite understand.

Q. From any one bank.

A. I don't think that could be correct. We ended 1959 with $44 million in short-term loans outstanding.

Q. What would be the largest from any one bank?

A. That would be $10 million. No, it should be $13 million from each bank.

Q. Do you find that on the exhibit?

A. The exhibit is difficult. It was filled out in the form, I think, in which you requested it, but it just shows the date it was taken out and the date on which the note was paid.

[fol. 4143] Q. And how much is outstanding?

A. That is right.

Q. But as far as separate loans are concerned, each of these figures on the exhibit indicates a separate note?

A. Yes.

Q. So that to the extent that you have an administrative problem or an administrative burden in making the loan, you had it on each one of these separate notes?

A. A note is a phone call just followed up with a signature. That is *the* not the administrative burden I was referring to.

Q. You can do this with any of the banks with which you have a relationship; is that right?

A. Yes, sir.

Q. My examination of this exhibit indicates with three exceptions all of these notes are for $5 million or less

and only one is for $5 million. Do you agree with that?

A. I think so. I didn't examine this very thoroughly.

Q. Well, if you have any doubt about it, you have the exhibit. I think you will find it correct.

A. I think that is the customary amount for a note.

By the Court:

Q. If you have three notes outstanding for $13 million, you still feel you owe $13 million; is that it?

[fol. 4144] A. Yes, sir.

Q. I do too.

You are president of the Chamber of Commerce?

A. Yes, sir.

Q. Would you like to see a big bank in Philadelphia, as president of the Chamber of Commerce?

A. I think it would be very helpful to the business of Philadelphia.

By Mr. Reycraft:

Q. Do you think it would be helpful to a business which required a lending limit of less than $8 million?

A. I think it would be helpful in terms of the kinds of services which a larger bank can provide. Obviously, if a company has a lending need of less than $8 million, its needs can be satisfied, I presume, by a Philadelphia bank in terms of a loan, but beyond that there is a whole gamut of banking services which are provided by the Philadelphia banks but are provided better, I believe, by somewhat larger banks.

Q. Do you think that the change from a $8 million lending limit to $15 million would make a difference?

A. It could make some difference, depending upon how the bankers did it.

Q. You have been dealing with the First Pennsylvania for many years. Do they give good service?

[fol. 4145] A. They provide excellent services in the area in which we have asked for services, which is basically collections, disbursements, and matters of that sort.

Q. And what type of service is it that you are able to get better from New York than you can get from First Pennsylvania?

A. Well, I put it in these categories. First, of course, the specific oil service which, as I have mentioned, could not probably come to Philadelphia under any circumstances; secondly, foreign, which Philadelphia, I believe has certainly the opportunity, the need for expanded foreign service in its banks. This, after all, is the first or second largest port in the United States.

Q. And why is the merger necessary to provide those services?

A. It is not necessary to provide those services. Each of the banks now provides those services in some measure, but I think if a bank were somewhat larger it might be able to provide a somewhat better service, a wider service.

Q. Are there any peculiarities to New York's position in the financial community which make it likely that New York will continue to be the major source of foreign financial services?

A. I think New York will continue to be the major [fol. 4146] source of foreign services. Philadelphia is a tremendous bulk port. It is not a very large port in terms of exports and imports of many different kinds, and, of course, most of the import-export houses are located in New York City. New York will continue to be a very large center of international finance.

Q. And this would be true if all the banks in Philadelphia merged, wouldn't it?

A. This would be true, yes.

Q. Your company has deposit relationships with many banks other than those from which you have made loans in the past five years; isn't that so?

A. Yes, sir.

Q. And many of these banks have lending limits in excess of $8 million or $10 million, do they?

A. I don't believe so. In general, they are relatively small banks in relatively small communities. There are some that are not.

Q. And you maintain those deposits because you require local services from those banks?

A. Yes, sir.

Q. And not because you necessarily require loans from them?

A. We do not borrow from those banks.

[fol. 4147] Q. So that for those relationships as to which you have just testified, the lending limit is not important?

A. It is not important.

Q. Are any directors of your company directors of any Philadelphia banks?

A. Mr. Bickey, I believe, is a director of the PSFS, Philadelphia Saving Fund Society. Of course, he is not a director of any other bank.

Q. Mr. Ingersoll?

A. Mr. Ingersoll is also a director of the PSFS, I believe.

Q. He is also a director of the Girard Trust Corn Exchange Bank, I believe, is that correct?

A. Is he? I didn't realize that.

Q. And he is a member of your Finance Committee?

A. Yes, sir.

Q. Do you know what your total deposits are at the present time in the Philadelphia National, Mr. Bradshaw?

A. With the Philadelphia National?

Q. Yes.

A. I think it is a thousand dollars.

Q. I think that is right.

By the Court:

Q. What was that answer?

[fol. 4148] A. $1000, sir.

By Mr. Reycraft:

Q. Would you agree that the four banks that you referred to as being your existing banks have a lending limit of about $160 million combined?

A. I think so. The Chase is 62 and the First National City is 57, is it, something of that sort, and Morgan is 42, I think.

Q. That is right. So that even at the maximum borrowings that you have indicated, you are well within the lending limits of your existing bank relationship; is that right?

A. Yes, sir.

Mr. Reycraft: That is all I have.

Redirect examination.

By Mr. Price:

Q. And the largest loan you can get in Philadelphia is $8 million from one bank?

A. Yes, sir.

Q. These loans that you spoke about, that Mr. Reycraft asked you about, as being $5 million or less, your practice is to borrow a million or two million at a time from each of the banks and then build up an aggregate amount which is considerably excessive of $5 million at one time usually, is it not?

[fol. 4149] A. Yes, sir.

Q. So that it may go up to ten or twelve million dollars from one bank in New York?

A. Yes, sir.

Q. But you have got to stop at $8 million in Pennsylvania?

A. Yes, sir.

Q. That is the way these sheets indicate your loans were made—a loan made March 2, paid off in September, but before September came around you borrowed again in March, March, March, June, June, and so on, so that the amount was being built up all the time until the end of your demand, and *then* you begin selling oil again in the winter the loans are paid off?

A. Yes.

Q. That is the usual routine, is it not?

A. Yes. At any one time, of course, the figure we are interested in is how much we owe each bank in total, not the makeup in terms of notes.

Q. And the aggregate amounts you usually owe in your banks is substantially in excess, not only of $5 million, but of $8 million?

A. Yes, sir.

[fol. 4150] Recross-examination.

By Mr. Reycraft:

Q. As to each one of these notes, you can get it by phone call from any bank with which you have a relationship?

A. Yes, sir.

Mr. Reycraft: That is all.

JOHN P. ADAMS, resumed.

Cross-examination. (Continued)

By Mr. Reycraft:

Q. We were talking, Mr. Adams, about D-66, and would you turn to the section on loans to individuals, Roman IV D-2.

A. D-66, IV D-2.

Q. "Additional Sales Finance Companies With Offices in the Philadelphia Area."

A. I have IV D-2.

Q. Now, you show for CIT Corporation outstanding receivables of $2,202,000,000, and you don't know, do you, how much of that originates in the Philadelphia area?

A. No, sir. We put in because we have offices in Philadelphia and do business here, and that is the total figure. We didn't know what percentage.

The Court: Aren't these all national companies that we [fol. 4151] are talking about?

Mr. Reycraft: Yes, sir.

The Court: I don't know what page it is, but it is D-2. Is that what we are talking about?

Mr. Reycraft: Yes, sir, that is right.

The Court: Aren't they all national in scope?

Mr. Reycraft: I think we would all agree with that.

The Court: I don't know about Maryland Credit, but the rest of them are national in scope—International Harvester, General Motors, CIT, Commercial Credit, General Acceptance.

Mr. Price: Those in that D-2 category were national companies that had offices in Philadelphia.

The Court: Yes. I understood that is all it was supposed to show.

Mr. Price: That is all, yes.

The Court: And there is no reference of the amount of receivables that they had to the Philadelphia area.

Mr. Price: Not at all. That merely indicated the size of the company and that they were doing business here, but it had no relation or no intention to indicate that any [fol. 4152] particular portion of that aggregate was Philadelphia business.

The Court: Well, that is what I understood was intended.

By Mr. Reycraft:

Q. Many of these companies have loans and lines with either the Philadelphia National or the Girard or both; wou' 't that be true?

A. am not familiar enough with all loans and lines, Mr. Reycraft, to answer your question authoritatively.

(Discussion among counsel.)

Mr. Price: Answering Mr. Reycraft's question, I would say that those listed in category D-2, all but one have lines or loans with the Girard.

Mr. Littleton: And for Philadelphia National Bank, answering Mr. Reycraft's question, and referring to those listed in D-2, all but two have lines or loans with the Philadelphia National.

Mr. Price: During the intermission, sir, Mr. Reycraft asked Mr. Adams whether he knew how much of the business of the credit unions, consumer discount companies, the small loan companies, was done in Chester, and Mr. Adams didn't have the figures, but I happened to check since then and I can give you the answer to the [fol. 4153] question if you would like to have it.

The Consumer Discount Company loans in Chester County aggregated $716,356, and if that is subtracted from the figure on the exhibit, it will give you the figure for the four counties.

Small loan companies, the aggregate loans were $6,939,915. That is in IV-B of D-66.

And the credit unions, which would be note 1 of IV, loans to individuals, the aggregate is $452,406 out of the total of the $11 million shown in note 1.

By Mr. Reycraft:

Q. Will you refer to D-68.

A. I have it.

Q. Can you tell me who made the estimates which are referred to in the footnote?

A. For loans under $50,000?

Q. Yes.

A. They were made by people in the respective credit divisions of each bank.

[fol. 4154] Q. Do you know what the basis was for their estimates; what criteria they used?

A. I believe I have it. They were done by count, actual count.

Q. By actual count rather than estimates?

A. Yes. There weren't that many of them, I am sure.

Q. Now will you refer to D-69?

A. I have it.

Q. Will you turn to the ninth page——

The Court: How many pages are there in this exhibit?

Mr. Price: It is the next-to-the-last page.

The Court: All right. That is easy.

The Witness: Is that the one that is headed "Philadelphia National Bank"?

Mr. Reycraft: No, the one that has the grand total for the Girard.

Mr. Price: The third page from the last page.

The Witness: I have it.

By Mr. Reycraft:

Q. Do you know what percentage of the grand total on that page originates within the four-county area?

A. The breakdown, as far as the area is concerned, or the areas are concerned is by numbers of accounts.

[fol. 4155] Q. You don't have the percentages which originate in the four-county area?

A. I do not have that.

Q. We get, for grand total, about 69 per cent of the 10,068 total accounts and we haven't computed the other percentages, which we will submit for the record.

With reference to the Philadelphia National Bank, of the grand total it appears that 95 per cent of the grand total originate from the four-county area and we will also submit that.

Mr. Adams, would you go back for a moment to D-60? Perhaps you don't need to refer to the exhibit.

A. Here I only go back to 62.

Q. On both 60 and 61 you indicate deposits of foreign banks originating in the Northeast United States.

A. Yes, sir.

Q. On D-60, that is the last page. You have 12 per cent of foreign bank deposits originating in Northeast United States, outside Third Federal Reserve District.

A. Which page are you on, Mr. Reycraft?

Q. The last page of D-60.

A. That is the combined?

Q. Yes. You have 12 per cent of foreign bank deposits originating within the Northeast United States, outside [fol. 4156] the Third Federal Reserve District.

A. (No response.)

Q. Do you have that, sir?

A. Oh, yes.

Q. Can you tell me what foreign banks you have in mind?

A. There are foreign banks who have offices in New York and Washington, which, under our geographical breakdown, is in the Northeast United States; and we considered that those offices are the location for the deposit.

Q. That means foreign banks which have branch offices or establishments in New York or Washington?

A. That's right, sir.